

Review of Factors Affecting Purchasing Power and Investment in Property: A Comparative Study between Indonesia and Neighboring Countries

Endah Kusumastuti, Thania Kusmalinda, Yudistira Nugraha, Nicko Albart

Universitas Paramadina, Indonesia

Email: endah.kusumastuti@students.paramadina.ac.id, thania.kusmalinda@students.paramadina.ac.id, yudistira.nugraha@students.paramadina.ac.id, nicko.albart@paramadina.ac.id

Correspondence: endah.kusumastuti@students.paramadina.ac.id*

KEYWORDS	ABSTRACT
Purchasing Power Parity; Property Investment; Credit Policies; Economic Stability; Indonesia; Neighboring Countries	The disparity in purchasing power and investment in the property sector between Indonesia and neighboring countries has attracted attention in recent years. Various aspects, both macroeconomics and socio-demographics, play a role in creating the dynamics of the property market in each country. This research explores how these factors - including inflation, interest rates, national incomes, and public policies - contribute to purchasing power parity and investment patterns in property. Through the systematic literature review (SLR) approach with 12 articles reviewed. The findings show that Indonesia faces challenges of limited access to credit, unbalanced income growth, while neighboring countries such as Singapore and Malaysia followed by Thailand and Vietnam are able to encourage stronger investment with more stable and investment-friendly economic policies. Hence, the results of this study suggest that Indonesia should adopt some best practices from neighboring countries to increase purchasing power parity and investment in the property sector in a sustainable manner.

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Introduction

In the national economy, property is one of the main pillars that has a very important role. Property has directly contributed to the gross domestic product through several mechanisms such as property buying and selling transactions, direct activity contributions in construction activities, foreign and domestic investments and tax revenues for the government. Currently, most of the commercial property sector has entered the recovery phase after the Covid-19 pandemic Property Market Report, (2023) although it needs to be recognized that the growth in the performance of this property sector is still not very significant.

In the global property sector, it is estimated that the property sector is still characterized by uncertainty along with slowing economic growth. However, this does not affect the performance of the property sector in Indonesia because the property market in Indonesia still does not utilize real estate investment trust (REITs) instruments traded in the global market and also limited *offshore*

relations with Indonesian corporations. This is illustrated by the impressive growth in the mortgage sector, which has the highest growth in property lending in 2023 (Bank Indonesia, 2024).

At this time home ownership is no longer considered as a place to live, but has been considered as an investment instrument in the long term which is also a measure of human welfare (Budi, 2009). By having stable prices and tending to rise and having a low level of risk, property becomes the most profitable investment in the long term (Safrizal et al., 2024). Investment in property also has the aim of generating profits that will be able to offset current and future consumption costs (Shim et al., 2008). Investment in real estate is also a good hedge against inflation because property prices tend to rise and will be able to offset the impact of rising inflation (Ibrahim et al., 2016).

Although the property sector is a promising long-term investment, it does not necessarily encourage someone to decide to buy property as one of their investments. They consider many important aspects produced by property and create conditions to buy products by calculating using product prices (Rahadi et al., 2022). The factors that influence purchasing power and investment in the property sector in each country are different, as in the Malaysian market sector. Unlike Indonesia, in Malaysia, the property market is a dynamic trend that can be influenced by any major events in the world and the local market (Rahadi et al., 2022). Then, what about other countries such as Thailand, Vietnam and Singapore which are Indonesia's neighbouring countries, what are the factors that can affect purchasing power and investment in property? Are the influencing factors the same as those in Indonesia?

Based on the description above, this study was conducted to add empirical literature that supports previous findings related to factors affecting purchasing power and investment in the property sector that focus on Indonesia with comparisons to neighbouring countries such as Malaysia, Singapore, Thailand and Vietnam. This study is expected to be an input in analyzing the factors of purchasing power of investment in the property sector. Furthermore, this research will be organized as follows: literature review, research methods, results and discussion, conclusions and suggestions.

Research Methods

The research methodology used was a *systematic literature review* (SLR). The research journal review tool used to make SLR transparent, capable of replication, and scientifically sufficient is the *Preferred Reporting Items for Systematic Reviews and Meta-analyses* (PRISMA) 2020 (Page et al, 2021). The journal articles themselves are searched using database tools such as Google Scholar, Web of Science, and ScienceDirect. In the journal search, the *keywords* used were purchasing power, property investment, credit policy, economic stability, Indonesia, and neighbouring countries. The criteria used to select journals for inclusion were: (a) Indonesian and English journal articles published between 2019-2024, (b) research discussions on factors affecting purchasing power that occurred in Indonesia and neighbouring countries such as Malaysia, Singapore, Thailand, and Vietnam. *Content* analysis was used to analyze the content of journals and literature references. The flowchart of the PRISMA 2020 search method is shown in Figure 1 below.

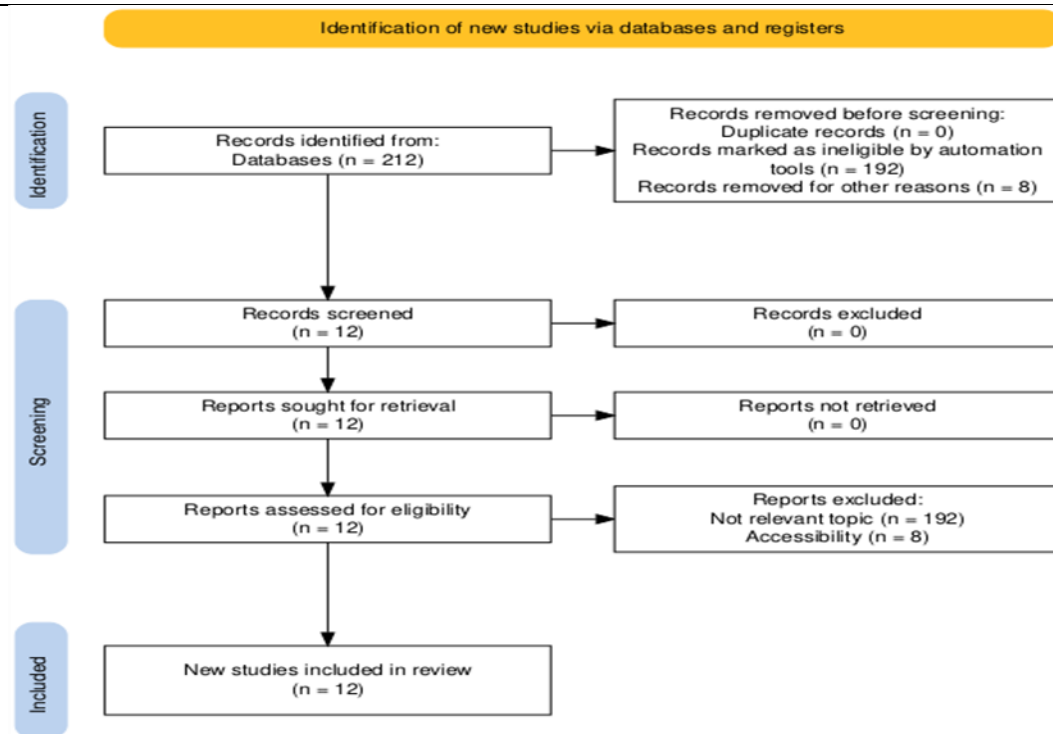


Figure 1. Flowchart with PRISMA 2020 Search Method

Source: Data Processed, 2024

Results and Discussion

To determine the factors that influence purchasing power and investment in property between Indonesia and neighbouring countries, this research must have a strong theoretical basis and relevant empirical evidence. One of the steps of gathering information sources is to search for articles that have been published in the form of journals in trusted academic sources, where the article collection process is carried out through Google Scholar, a platform that provides access to various academic publications. This aims to find articles that are relevant and support the research on purchasing power and investment in property between Indonesia and neighbouring countries. The results of the search show that several articles can provide knowledge and data related to this research, whereas from the search, a total of 12 articles were obtained that can support the analysis in this research.

Table 1. Total of 12 articles were obtained that can support the analysis

No.	Journal Title	Research Objectives	Sample	Key Findings
1	Factors Influencing Investment Decisions in Property and Real Estate Sub-sector Companies	Examines how much the influence of liquidity and profitability of Property and Real Estate subsector companies listed on the IDX (2018 and 2021) affects investor interest in investing, as an affirmation	17 companies in the Property and Real Estate subsector listed on the IDX based on the criteria of having complete financial reports and positive profits.	1. Liquidity has a significant positive effect on stock investment decisions. 2. Profitability has a significant negative effect on stock investment decisions.

	Listed on the Indonesian Stock Exchange (Safrizal et al., 2024)	of previous research that contradicts each other - that is, some have an effect and some do not.		3. Investment opportunities also have a negative influence on stock investment decisions, as companies may prioritize other forms of investment such as land or property over stocks.
2	Analysis of Factors Affecting Demand for Home Ownership Loans (KPR) in Palembang City: The Case of BTN Bank Mortgage Customers (Sandria et al., 2019)	Examine the effect of income, house prices, and interest rates on the demand for home ownership loans (KPR) at BTN Bank in Palembang City.	Primary data from respondents of Bank BTN Palembang customers, secondary data from BTN, Central Bureau of Statistics (BPS), and BI.	<ol style="list-style-type: none">1. Income has a negative but insignificant effect on mortgage demand.2. House prices have a positive and significant effect on mortgage demand, with an increase in house prices by 1% will increase mortgage demand by 0.10%.3. Interest rates have a negative and significant effect on mortgage demand, where an increase in interest rates by 1% will reduce mortgage demand by 0.26%.4. Overall, income, house prices, and interest rates explain 57.6% of the variation in mortgage demand in Palembang, with the remaining 42.4% influenced by other variables not included in this research model.
3	Determining the Factors Influencing Residential Property Price: A comparative study between Indonesia and Malaysia	Identify factors that influence residential property prices in Jakarta and Kuala Lumpur. This is studied because most Indonesians prefer to live in landed houses compared to vertical housing such as apartments. The consideration in this study is the impact of the COVID-19 pandemic on housing	100 respondents - Indonesia. 134 respondents - Malaysia.	<ol style="list-style-type: none">1. In Indonesia, factors such as housing location, property financing, and health have a significant influence on residential property prices.2. In Malaysia, there are no significant factors affecting residential property prices, including the physical design of housing,

		demand, costs, and prices in both cities.		<p>developer products, and development concepts.</p> <p>3. Analysis of the combined data between Indonesia and Malaysia shows that only property funding has a significant influence on property price preferences.</p> <p>4. The COVID-19 pandemic affected the housing markets in Jakarta and Kuala Lumpur, with Indonesia having a higher number of Covid-19 cases than Malaysia, impacting housing demand and prices.</p>
4	The Influence of Macroeconomic Factors on Residential Property Prices in Malaysia Before and During COVID-19 (Isyanto et al., 2022)	Analyze the influence of macroeconomic factors - such as Gross Domestic Product (GDP), private consumption, government spending, and household savings on residential property prices in Malaysia both before and during the COVID-19 pandemic - that directly or indirectly affect purchasing power on property.	Secondary data from Department of Statistics Malaysia, National Property Information Center (NAPIC), and World Bank data on a quarterly basis from 2000 - 2020.	<p>1. Positive influence: all variables studied show a positive influence on residential property prices, with personal consumption and household savings having a very strong correlation.</p> <p>2. Weakly correlated to GDP: while there is a positive relationship between GDP and property prices, the effect is not significant compared to other variables.</p> <p>3. Statistical significance: the regression analysis results show that the variables are significant at the 5% and 10% levels, except for GDP which shows a weak effect.</p> <p>4. Policy implementation: how property prices affect household spending and the economy as a whole.</p>
5	Analysis of Consumer Behavior and Finance	Knowing the variables that influence investors' interest in buying middle-class properties in Batam City,	295 respondents who have purchased property for investment in 5 (five) sub-districts in Batam City.	<p>1. Significant influence: the variables of consumer behavior, consumer attitude,</p>

	Middle Class Property Investment Interest in Batam City (Yuwono & Yeo, 2020)	especially in the midst of property sector stagnation due to slowing industry growth.		overconfidence, and financial aspects significantly influence investors' interest in investing in middle-class properties. 2. Consumer behavior: respondents indicated that having opportunities and knowledge of the market increases investment interest. 3. Positive attitude: a positive attitude towards purchasing property drives investment decisions. 4. Overconfidence: high confidence in predicting market trends increases investment interest. 5. Financial aspects: financial considerations, including taxes and payment schemes, greatly influence investment decisions.
6	The Effect of Income on Commercial Property Demand and Investment Decisions in Semarang City (Bakar & Pantawis, 2020)	Knowing the extent to which income levels affect people's decisions to invest in the property sector.	97 respondents who are residents of Semarang City who purchased commercial property for investment purposes.	1. Income Effect: the results showed that income level has a positive and significant influence on property demand and investment decisions in Semarang City. 2. Public Perception: public perception of investment decisions is high, but they tend to rely more on instinct rather than considering investment risks and returns. 3. Income Level: the majority of respondents have an income in the range of IDR 5 million to IDR 6 million, which influences their investment choices, especially in the form of

				commercial properties such as shophouses and boarding houses.
7	Indicators in the Purchase of Housing Properties (Eze & Lim, 2013)	Examines the influence of several key indicators (investment risk, inflation hedge, property price, investor's real income, access to financing, and interest rate) on investors' decision to purchase real estate property in Malaysia. In addition, this study intends to build a conceptual framework that can be used by the real estate industry and researchers to develop relevant scales and measures in the assessment of future property purchase decisions.	No sample, just an in-depth literature review of key indicators and relevant theory.	<ol style="list-style-type: none"> 1. Investment Risk: Low-risk investments tend to have a positive influence on property purchase decisions. 2. Inflation Protection: protection against inflation can have a negative influence on investment decisions. 3. Property Prices: high property prices can increase the decision to purchase a property. 4. Available Income: higher income increases the ability and decision to purchase property. 5. Access to Financing: ease of obtaining financing has a positive influence on purchasing decisions. 6. Interest Rates: low interest rates tend to increase the decision to buy property.
8	Determinants of Housing Prices: Evidence from Malaysia and Singapore (Azlan & Lee, 2022)	Analyzes the determinants of housing prices in Malaysia and Singapore - which contribute to the purchasing power of property. The main focus is to explore the relationship between the Housing Price Index and four macroeconomic variables: Gross Domestic Product (GDP), interest rates, inflation rate, and unemployment rate.	<ul style="list-style-type: none"> • The data coverage period is from 1979 - 2019. • Data was obtained from the World Bank and the Bank for International Settlements, with a total of 41 data points for each variable in Malaysia and Singapore. 	<ol style="list-style-type: none"> 1. Gross Domestic Product (GDP): there is a significant relationship between GDP and housing prices in both countries. An increase in GDP is positively correlated with an increase in housing prices. 2. Interest Rates: results show that interest rates have a positive relationship with housing prices in Malaysia, although it is not significant in Singapore. 3. Inflation Rate: in Malaysia, the inflation rate shows a positive relationship with

				housing prices. However, in Singapore, this relationship is negative.
				4. Unemployment Rate: there is a negative relationship between the unemployment rate and housing prices in both countries, where an increase in unemployment tends to lower housing prices.
9	Low Income Housing Allowance System in Malaysia: Managing Housing Need for the Poor (Shuid, 2010)	Analyzes the housing allocation system for low-income earners in Malaysia. The main focus is to understand how the role of the state in distributing housing and to evaluate the effectiveness of the existing housing allocation system, including the impact of the open registration system (ORS) introduced to address issues of inefficient allocation and corruption.	<ul style="list-style-type: none">• Data from various stakeholders, including federal and state governments, housing developers, and low-income people targeted by housing programs.• Relevant statistical data on squatter populations and housing units built by the public and private sectors.	<ol style="list-style-type: none">1. Improved Access to Housing: the implementation of ORS has helped increase transparency and efficiency in the selection of homebuyers, which in turn reduces the number of people living in squatter settlements.2. Reduction of Squatter Settlements: from 1999 to 2006, the number of people living in squatter settlements in Malaysia was significantly reduced from 571,261 to 102,045, demonstrating the success of the housing program.3. Allocation Issues: Despite improvements, there are still problems in the allocation system, including a mismatch between housing supply and population needs, as well as corrupt practices that affect access for eligible groups.4. The role of the state: the state continues to play an important role in controlling the allocation of housing, both for public and private projects, which differs from the

				neoliberal approach that focuses more on the free market.
10	Key Factors Influencing Purchase or Rent Decisions in Smart Real Estate Investments: A System Dynamics Approach Using Online Forum Thread Data (Ullah & Sepasgozar, 2020)	Analyze what factors have led to post-purchase regret from property owners/renters over the past decade.	Data using literature review approach and threads published online. 118 pieces of literature were systematically identified.	<ol style="list-style-type: none"> 1. Insufficient Information: insufficient information provided to consumers. 2. Complicated Property Purchase Process: this is another factor reported to be one of the causes of property purchase regret. 3. Property Price: the main reason for regretting a home purchase decision is buying a house that is too expensive.
11	How (Un)affordable is Housing in Developing Asia? (Helble et al., 2021)	Comparatively analyze the city-level housing affordability of 211 cities across 27 developing countries in Asia-Pacific.	Using a variety of private and publicly available databases on property prices in 211 cities across 27 countries. Researchers combined data on property prices with household income to calculate the price-to-income ratio.	<ol style="list-style-type: none"> 1. Property Unaffordability: housing is highly unaffordable for most urban dwellers in developing Asia, as much as 90% of the region's urban population. 2. Property Price Levels: unaffordable housing prices tend to be higher in cities with larger populations and with lower household incomes.
12	Housing Inequality in Developing Asia and the United States: Will Common Problems Mean Common Solutions? (Aizawa et al., 2020)	Further analyzing the imbalance of housing tenure	<ol style="list-style-type: none"> 1. 10 Countries Growing in Asia Demographic and Health Survey data 2012-2017 for 10 countries 2. United States American Housing Survey 2017 	<ol style="list-style-type: none"> 1. In the United States Residents in central cities have lower access to adequate housing than suburban residents. In addition to access issues, inequality in property ownership is associated with household economic status. 2. In Emerging Asia & the United States There is a significant concentration of inadequate housing tenure among households with lower wealth and income.

Source: Data Processed, 2024

From the results of several journals that have been collected, it can be seen that:

Inflation and Interest Rates

Inflation and interest rates significantly affect property prices and purchasing power in most countries. In Indonesia, the volatile inflation situation and high interest rates limit people's access to property financing. In Malaysia and Singapore, stable inflation and low interest rates provide a more conducive environment for property investment.

National Income and Economic Growth

The growth in national income in neighbouring countries, especially Singapore and Malaysia, has contributed to the increase in people's purchasing power for property. In Indonesia, despite economic growth, unequal income distribution still prevents many people from owning property. This factor is exacerbated by low access to credit which limits the ability to purchase property, especially for people with middle to lower income.

Influence of State Policy

Indonesia: Indonesia's housing policy tends to focus on home ownership as a long-term investment instrument, but access to property ownership remains limited due to a lack of subsidized housing loans and regulatory barriers.

Malaysia and Singapore: More pro-investment policies in neighbouring countries, especially Malaysia and Singapore, are driving growth in property investment. In Malaysia, the subsidized housing scheme for low-income earners has increased the purchasing power of the property market. While in Singapore, the REITs (Real Estate Investment Trusts) policy and government support for international property investment increased public interest in property as an investment asset.

Credit Access

Access to credit in Indonesia for property ownership is still very limited compared to Malaysia and Singapore. This is a major limiting factor in increasing the purchasing power of property, especially among people with middle to lower income. Malaysia has implemented more inclusive policies in housing credit access, while in Singapore, the availability of innovative financing instruments such as REITs makes property investment more attractive to both small and large investors.

Economic Stability

Neighbouring countries such as Malaysia and Thailand have more stable economic policies that can provide a sense of security for property investors. In Indonesia, economic fluctuations and frequently changing fiscal policies are one of the factors inhibiting purchasing power and investment in property.

Conclusion

This research shows that while Indonesia has great potential in the property sector, there are several factors hindering purchasing power and investment interest, including limited access to

credit and unsupportive policies. Compared to neighbouring countries such as Malaysia and Singapore, Indonesia needs to improve its policy infrastructure and expand people's access to property. By learning from best practices in other countries, Indonesia can make access to property ownership more inclusive and attractive.

The implication for Indonesia is to increase purchasing power and property investment, where Indonesia can learn from neighbouring countries that have successfully created a more stable and inclusive property ecosystem. 1) Expansion of Credit Access, the Indonesian government needs to expand access to credit, especially for people with lower-middle income, by subsidizing interest rates and easing regulations on property ownership. 2) Pro-Investment Property Policy, Indonesia could also consider implementing a REITs policy and encouraging foreign investment in the property sector to strengthen the market and boost purchasing power. 3. Economic Infrastructure Improvement, Economic stability should continue to be prioritized for improvement with measured fiscal and monetary policies in order to increase investor confidence.

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