

MILLENNIALS RESIDENTIAL PREFERENCES IN INDONESIA DURING THE COVID-19 PANDEMIC

Raden Aswin Rahadi
Dwi Rahmawati
Saldy Fitrianda
Alfita Puspa Handayani

ABSTRACT

This study aims to comprehend situation and residential preferences of Indonesia's millennials during the COVID-19 Pandemic. It started by discussing the definition of Millennials or Generation Y, followed by study about what property is all about. Next, we elaborate about Millennial generation positioning within the market, their preferences, and their position in Indonesia Real Estate market. Additional analysis on global situation and current pandemic condition follows in the study, with focus of Indonesia and its opportunity. In conclusion the consumer began to have faith that the pandemic crisis will find its turning point. Though the millennials' housing preferences are still the same, few things are more considered to be more important as an investment during the crisis, such as price, the duration of the mortgage, and cash to investment ratio. Further research could use the conceptual framework in terms of the preference of the Millennial's generation and the other group of demographics. Lastly, how the study will help the investors understand the consumer and the government to support the economic ecosystem and support through the policies that are suitable for the situation.

Key words: Millennials; Generation Y; Indonesia; Real Estate; Housing; Consumer Preferences; COVID-19

INTRODUCTION

The Millennials, also known as Generation Y, are the largest segment of the world's working-age population at the moment. (Cushman & Wakefield, 2020). This is also the case in Indonesia, at which Millennials make up the majority of the population. As a result, many property investors and developers are focusing on this age group. But, as mentioned by Rumah123 as the largest property selling and renting in Indonesia, 95% of Indonesian Millennials will not be able to own a house because of the consumptive lifestyle and a vert high-rise in property asset price (Sugianto, 2017). The current pandemic has exacerbated the situation, causing economic instability. Government and developer are attempting to formulate a solution and alternatives to the problem, but this is proving to be a challenging task. The program set up by the Government in providing houses for the citizens is now facing a challenging condition, lowering the interest rate and giving other incentives are the fastest and more straightforward. Still, this will not suffice in the long run, as it will have an impact on the proposed GDP income projection.

The developer or investor is also attempting to manage the situation by providing more benefits and subsidies to the consumer to provide a better offer. Even so, since the goals are to understand the market and demand, it will require a better understanding of consumer preferences. With this issue affecting Indonesia, the researcher hopes to gain a better understanding of the situation and develop preferences that are appropriate for the current situation.

LITERATURE REVIEW

What Property is All About?

Property is considered as one of the most sought investment through generation. Its uniqueness compared to other commercial products, as mentioned in Weimer's 1966 study. The study findings showed that property goods have unique features that differentiate them from other economic products. The attributes include their long-term presence, substantially broad economic units, strong government power, fixed role, and special business characteristics.

Each of the property units has its own features and distinctions, unlike standard commercial goods. For housing goods, this often happens. For instance, the characteristics of housing location, building façade, and floor plan configuration vary from one house and another. A housing commodity would be distinguished from the rest to a greater extent because it would have a different living climate, different lifestyle, different prestige, and many other factors. When choosing a housing product to reside in, certain attributes become the most fundamental expectations for buyers.

Millennial Generation Positioning Within the Market

Millennial generation is determined by the researcher and popular media as the generation who is born between early 1980 to early 2000 as we could see from the graphic below that this generation is currently the most prominent within the market of the world, and it will continue for the next 2 to 10 more years.

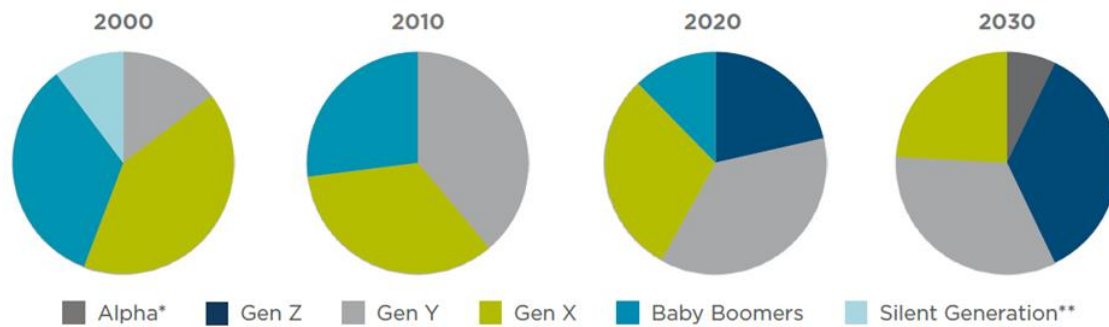


Figure 1. Proportion of Working Age Population of the World (Cushman & Wakefield, 2020)

In Indonesia, there is 63 million Millennials generation, which equals 24% of the working-age population, and we could classify them into two categories; Junior millennial who was born in 1991 to 1998, and senior millennial who was born in 1983 to 1990 (IDN Research Institute, 2019).

Millennial Generation Preferences

Before delving deeper into Generation Y's preferences, it is also crucial to first comprehend general customer preferences when it comes to home purchases. Those preferences are presented on Figure 2.

According to a survey conducted by Lachman & Brett (2013), Generation Y preferences in deciding which house to purchase are primarily driven by a desire for more space (24%) and job location accessibility (the same percentage) (24%). While their least reasons are educational facilities (10%) followed by their indecisive choice of living by wanting to try new places to live with the same amount of percentage (10%).

According to Lachman & Brett, (2013), Gen Y preferences are primarily focused on management of repairs and maintenance, flexibility in how long the buyer can do the mortgage, and the length of the seller-buyer commitment. Several facilities such as garage parking, internet connection, and eco-friendly features as energy saving appliances are also considerations. While in the neighbourhood aspect, they prefer neighbours that have the same lifestyle as them.

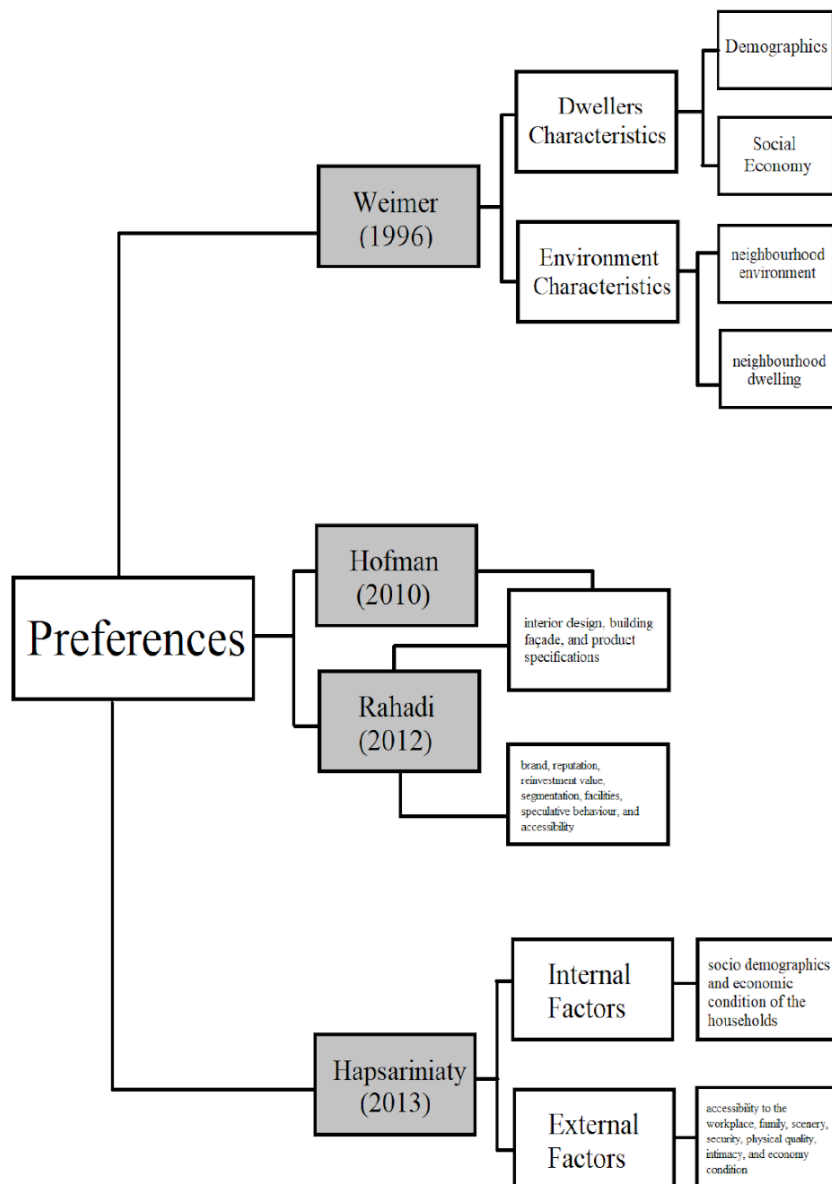


Figure 2. Housing Preferences from Various Literature Resources (Pradana and Rahadi, 2020)

Housing Prices in the Jakarta Metropolitan Area: A Comparison of Property Practitioners and Consumer Preferences

The oldest research on customer price expectations when buying a residential product can be dated back to Weimer's 1966 study. The study findings showed that property goods have unique features that differentiate them from other economic products. The attributes include their long-term presence, substantially broad economic units, strong government power, fixed role, and special business characteristics.

Each of the property units has its own features and distinctions, unlike standard commercial goods. For housing goods, this often happens. For instance, the characteristics of housing location, building façade, and floor plan configuration vary from one house and another. To a larger degree, since it would have a different living climate, different lifestyle, different prestige, and many others, a housing commodity would be distinguished from the rest. When choosing a housing product to reside in, certain attributes become the most fundamental expectations for buyers.

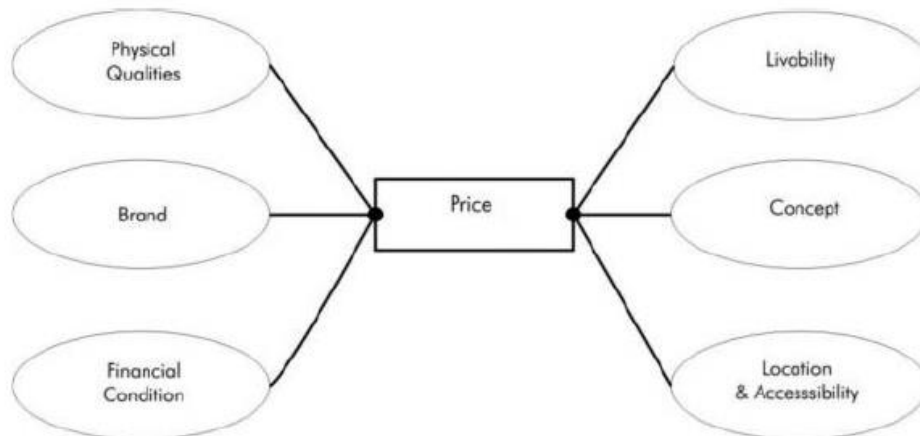


Figure 3. Attributes influencing housing products in Jakarta Metropolitan Region (Rahadi, Wiryono, Koesrindartoto, and Syamwil, 2013)

From the customer's perspective, the attributes in the physical characteristics' categories remain complete, including the façade, facilities, ROW, rooftop architecture, model specification, floor plan configuration, and overall physical characteristics. The attributes in the brand category are reduced into two items: the determination of developers and the consistency provided by the developers of the property. The third position type is categorized into five characteristics: good protection framework, good social contact, ease of connectivity, location near the centre of operation, and location near the centre of education. The features of the habitability group are reduced to four elements: reputation, social status, lifestyle, and privacy.

Thus, the features in physical qualities categories consisted of façade, ROW, rooftop design, product specification, floor plan configuration, and overall physical characteristics from the viewpoint of property practitioners. The position type is reduced to ten characteristics: direct access to the toll road, location near the office, decent security system, simple mobility, location near the operation center, location near the retail center, 136 places near the educational center, location near the religious center, special location, and general location.

Model of Millennial Housing Preferences in Jakarta

There are eight indicators that buyers should keep in mind before purchasing a home. The major preferences are the location of the building, accessibility, price, physical characteristics, machinery, construction and architectural aspects, prestige of developers and ownership of property. The findings in this study can be used to classify government policies, developers of real estate, and the population itself to represent housing preferences.

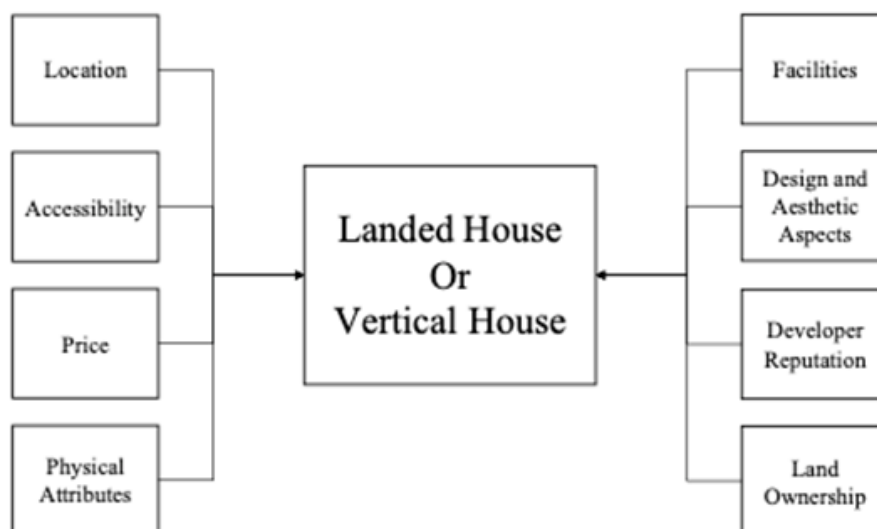


Figure 4. Landed House or Vertical House Preference Model In Jakarta (Mulyano, Rahadi, and Amaliah, 2020)

Consumers would prefer to ensure that they have the property in a strategic position that could improve their house's worth. The location factor is the distance to the home, retail lane, college, personal care, and community zoning. Physical characteristics are the next shaping appraisal. Different types of structures usually have different sizes and different amenities. Physical characteristics consist of the size of the structure, number of rooms, number of floor floors, technological installation, and the efficiency of the building itself, based on the results from previous studies. Accessibility to access the property is also a critical factor that buyers should consider, and accessibility is the key to gaining access to all areas of their building. Access to public transit, main roads, and toll roads are some of the points listed concerning connectivity. Price considerations include the land's economic value, affordability, profit margins, and the property's business position. The price factor is always important since it is always vulnerable to costs for low-class income.

The facilities such as the community hall, children's play area, protection, parking lot and green room are another driving factor. Real estate would be more appealing if there were more robust programs. Well-developed amenities, especially for married buyers, would increase the demand for real estate because they are more likely to create families in the right climate. The architectural considerations include interior design as well as exterior design. The important variables for interior design are room quality, livability, floor plan, while the variables for exterior design are façade design, materials, and maintenance simplicity. The next significant variable for consumer preferences is the credibility of the developer. A property developer's construction of an area often aims to offer a specific social status and reputation level of appeal to their customers. Land ownership in Indonesia is classified into three forms of ownership, which are permitted with a separate ownership certificate. There will be a different form of certificate with different rights for the owner for different forms of use of the property. Society has always recognized the importance of prioritizing the legal side of their property.

Global Situation and this Pandemic Thingy

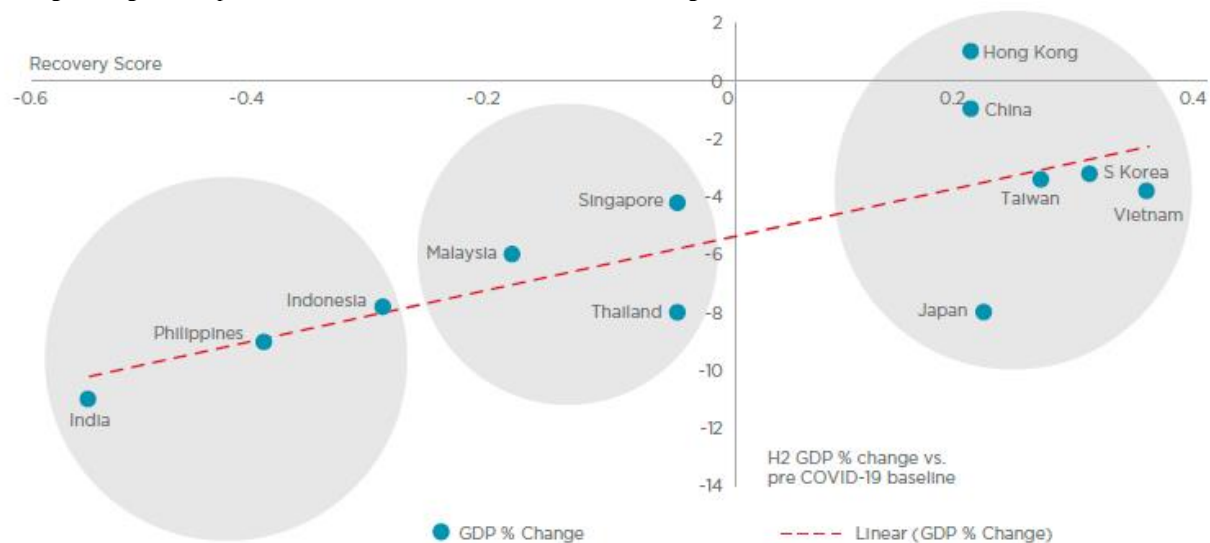
The coronavirus pandemic's rapid and major shock and shutdown steps to curb it have thrown the world economy into a deep recession. The global economy is expected to contract by 5.2 percent this year, according to the World Bank.1 This will mark the worst contraction since the Second World War, and the highest fraction of countries suffering per capita production reductions since 1870, the World Bank says in its Global Economic Prospects for June 2020.

The future is increasingly unpredictable and downside threats, including the likelihood of a more prolonged pandemic, economic upheaval, and isolation from global trade and supply linkages, are prevalent. This year, a downside scenario could lead the global economy to shrink by as much as 8%, followed by a slow rebound of just over 1% in 2021, with EMDE production contracting by almost 5% this year (World Bank, 2020).

This year, the U.S. economy is expected to decline 6.1%, reflecting the disruptions associated with pandemic-control steps. The production of the Euro Area is projected to decline by 9.1 percent in 2020 as severe outbreaks have had a significant effect on activity. As mitigation measures have reduced economic growth, Japan's economy is expected to shrink 6.1 percent. The trend in the number of new cases of COVID-19 also affects shopping habits for groceries. Customers impose the most pointless shopping inside the supermarket when COVID-19 is expanding at a rapid rate, for example. Consumer expectations for the home delivery system compared to the other methods are less high in areas where COVID-19 spreads at a diminishing rate, and the relative value of the feature of the buying process is lower in its entirety (Grashuis et al., 2020).

Indonesian Condition During the Pandemic

During the pandemic situation, a recovery program set up by the government will play a significant role in solving or at least reducing the negative impact to the economic situation, as well as handling the health care and welfare of the citizen.



Source: Oxford Economics; Cushman & Wakefield Research

Figure 5. Asia Pacific's Three Speed Recovery (Cushman & Wakefield, 2020)

From the figure above, the researcher is attempting to categorize Asia Pacific countries into three groups based on their response time to the pandemic. (Cushman & Wakefield, 2020). The first group is the most rapid, with these countries managing to contain the virus's spread in a short period of time while avoiding a prolonged and stringent lock down. The second group is considered on a mild level of rapidness in coping with the pandemic. These countries have provided hefty fiscal responses but still suffer from stringent lockdown and high spread infection. The third group is considered to be the slowest, and Indonesia is among the countries. These countries are still struggling to pass the peak of the infectious stages and found difficulty by their lack of response in handling the situation.



Source: www.macrotrends.net/countries/IDN/Indonesia/gdp-growth-rate

Figure 6. Indonesia's Case: Episode in GDP Growth from 1961 – 2021. (Macrotrends, 2021).

Indonesia has experienced episodes that have affected its GDP growth since 1961. The most significant drop happened in 1998, when the GDP growth sunk to -6.65% during the Asian's Financial Crisis. Many economists predicted that the crisis would recur during the Corona virus pandemic, with the fear that the drop would be the same or even worse. But the IMF showed that the real GDP growth of Indonesia in 2020 is -1.5% (IMF, 2020), slightly better than what they imagined. According to Suryahadi et al. (2020) the forecasts for the poverty rate are based on separate economic development projections for 2020 as shown on the figure below, illustrates that poverty rises as economic development decreases. In September 2019, before the Covid-19 epidemic, the baseline poverty rate was 9.2 percent, which means that 24.8 million people lived below the poverty line. If the expected economic growth rate for 2020 is 4.2%, the poverty rate is 9.7%. The poverty rate is 10.7 percent if it is 3 percent. In cases where inflation declines to 2.1%, 1.8% and 1%, the respective poverty rates climb to 11.4%, 11.7% and 12.4%, respectively. In the worst-case scenario, in which the pace of economic growth slows to -3.5% in 2020, the rate of poverty grows to almost 17% in 2020.

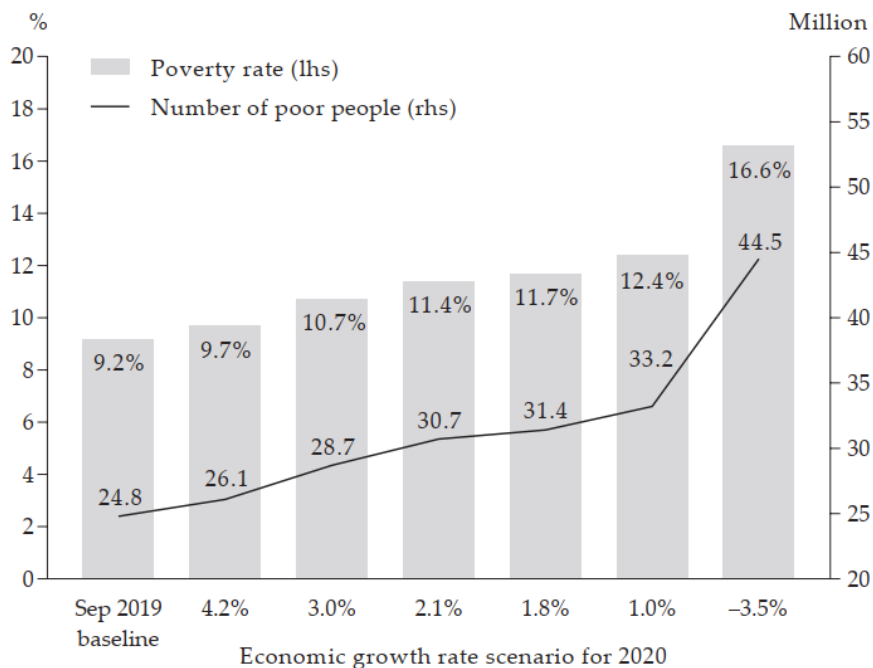


Figure 7. Projected Impact of Covid-19 on the Poverty Rate and Number of Poor People (Suryahadi et al., 2020)

Indonesian Property Market Situation during the Pandemic

As predicted, the pandemic situation has affected all aspects of peoples' economic condition. The three property development stakeholders, such as the Government, Investors and consumer, struggle to cope with the situation.

The government is trying to give stability and a foundation for the economy to run on its course, while the investors are looking to make a better and suitable offer for this kind of crisis. But the consumer has other things to consider; they fear that the crisis still offers uncertainty and restrain an investment is the most reasonable choice.

JLL Indonesia stated some notable points regarding property market condition during 2020 (Parama, 2020). Grade A rentals have dropped by around a third from peaks (mid-2015) to troughs owing to massive supply levels over the past five years (and with more to come in 2020), (early 2020). Rental prices should not scare landlords off making new agreements, but there is a condition with COVID-19 and several new leases are unlikely to be signed in the second quarter of this year. Expecting certain historical trends to continue later this year as business interest returns. Many shopping centers are partially or entirely abandoned, which means that the organization has come to a temporary near standstill. However, laws encourage retailers of food and drinks to stay available for pick-up or delivery services, and restaurants continue to be highly active in changing menus and providing promotions to suit the current reality. Local buyers are expected to take a step back in the current situation for residential companies, which means that short-term demand for condominiums will temporarily decline. The most common form of residential property for end-user buyers in Indonesia is houses (or landed homes as they are called in Indonesia) and demand is likely to be more robust. Industrial has been one of the most influential sectors in the Indonesian property landscape for some time and amid COVID-19 related disruption, logistics has emerged as the most resilient market. Indonesia, in terms of modern logistics warehouse space, remains under-supplied and local and foreign developers continue to try to solve this need. Long-term buyers remain alert about the current situation on the field but are still seeking investment prospects at the same time. After the company reopens, new development areas may emerge, such as increased investment in health and wellness, as well as increased involvement in the insurance industry. (Parama, 2020).

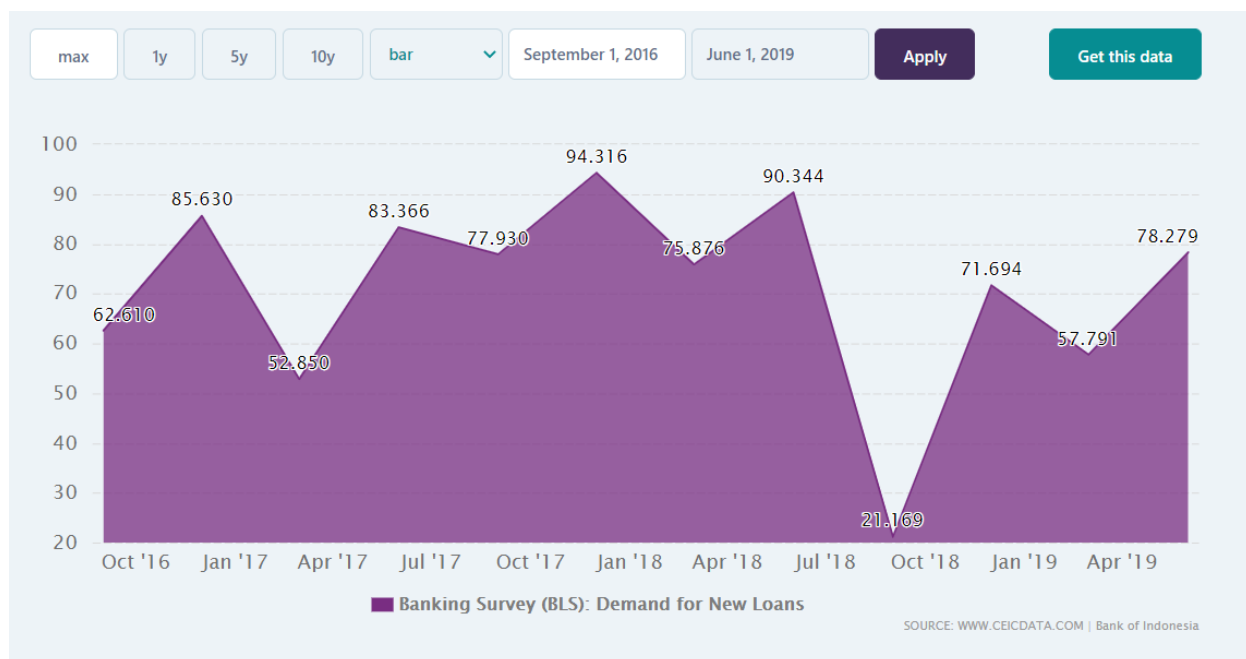


Figure 8. Growth Demand for New Loan Based on Economic Sectors (CEICDATA, 2019)

During the first half of 2020, investors and consumers are restrained on making a new loan. The economic sectors that hit the most are wholesale and retail trade; this has happened because of the policy applied by the government to isolate the spread out of the virus. Real Estate and construction sectors still manage to minimize the negative impact of the situation. The construction sector has bounced back to the second just behind the health service and social work activities sector in the third quarter of the year.

Eventually, this encouraging trend will continue into the new year, with the outbreak slowing down. Align with the situation, consumer confidence and view will gradually increase while coping and understanding the situation. The consumer's preference will also be affected by the condition, such as what type of residential and what cost they are willing to spend.

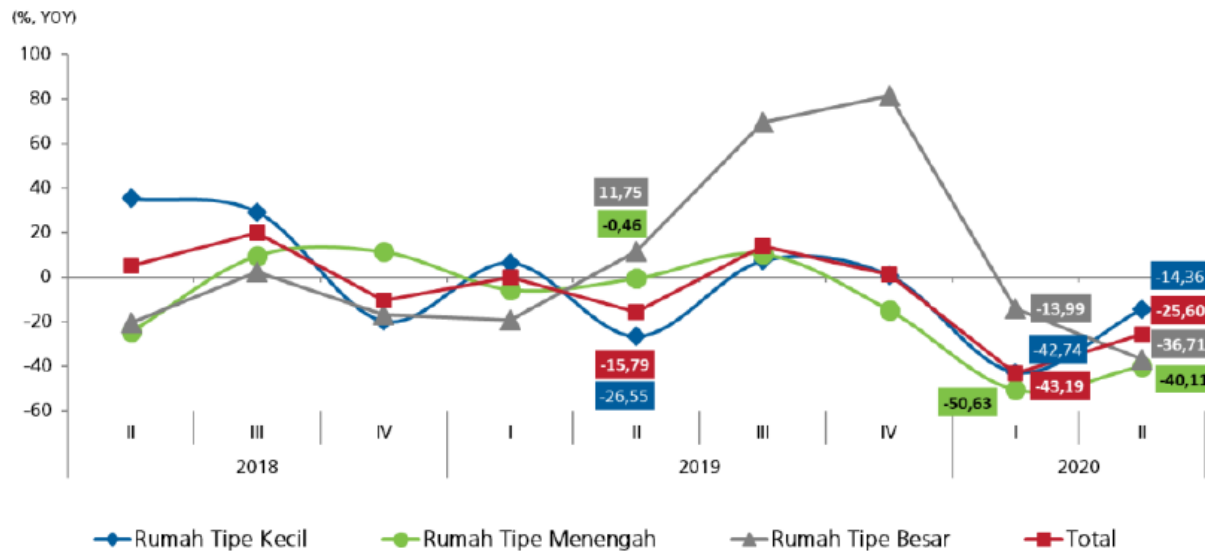


Figure 9. Growth of House sales, Based on Type Of Residential (Bank Indonesia, 2020)

The figure shows the percentage of housing sales from 2018 to the second quarter of 2020. The small type of house from the second quarter to the fourth quarter of 2018 showed a declined percentage of sales. In 2019, the first and third quarter record positive numbers, while the second and fourth quarter is experiencing a negative number. The negative percentage was understandable and predicted because the second quarter is where the Eid feast happened, and in the fourth quarter is where Christmas and the new year comes. During these two periods, the consumer is likely to make an investment. Unlike the small house group, the medium house group sales percentage did not follow the same pattern, in the fourth quarter of 2018 and the second quarter of 2019 where the percentage record is increased from the previous quarter, while the small house group recorded a declined percentage. A different story happened to the large group of house growth percentage, from 2018 to 2020. From the second quarter of 2018 to the first quarter of 2019, the ratio is always negative. While from the second quarter to the fourth quarter of 2019, the sales percentage recorded significant growth, almost reaching 80% in the fourth quarter.

In 2020 every type of house experienced a significant drop in sales percentage growth, even though the number is slightly increasing in the second quarter. Nonetheless, it will almost certainly be negative for the entire year. From the percentage, in the second quarter, we could see that the consumer preferences are towards the small group of houses.

Opportunities in the Property Market

People already have a good understanding of the millennial housing preferences model in Jakarta, as well as the global situation in this pandemic era and how the Indonesian property market has fared during the crisis. The question is how to interpret millennial preferences in this pandemic, particularly in terms of improving property business conditions at least until 2022.

Many people will not dare to take risks such as applying for a mortgage in this time of uncertainty. Meanwhile, mortgage (KPR) is the largest source of funds for home purchases in Indonesia. The very long term of mortgage periods (10-15 years) makes new home ownership during this uncertain period more likely to be avoided by most people. Since the beginning of the pandemic until now (one year after the pandemic took place) applications for mortgage have decreased drastically. As we can see in Figure 10, The following illustrates the realization of the housing finance liquidity facility (FLPP) for the last seven years from 2013-2020 in each province in Java Island.

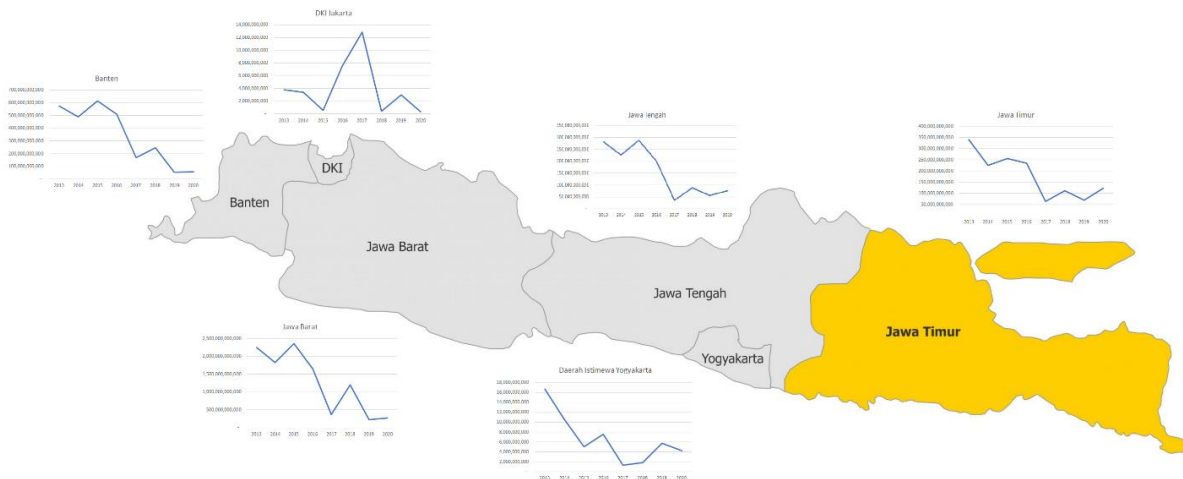


Figure 10. Realization of the housing finance liquidity facility (FLPP) for the last seven years from 2013-2020 in each province in Java Island (Bank Indonesia, 2020)

Data from Bank Indonesia in the first three months of 2020 shows that property in the form of land, houses, and apartments is ranked third in the type of investment that is the leading choice for placement plans for excess income in the next 12 months. According to the results of a Bank Indonesia survey conducted in January-March 2020, 28.2 percent of respondents said they might buy or build a house in the next 12 months, with 6.7% saying they are very motivated to purchase or build a house in the next 12 months. There is an opportunity for the purchase/construction of a house of 34.9%. This condition is an opportunity for the real estate business to survive the pandemic in Indonesia.

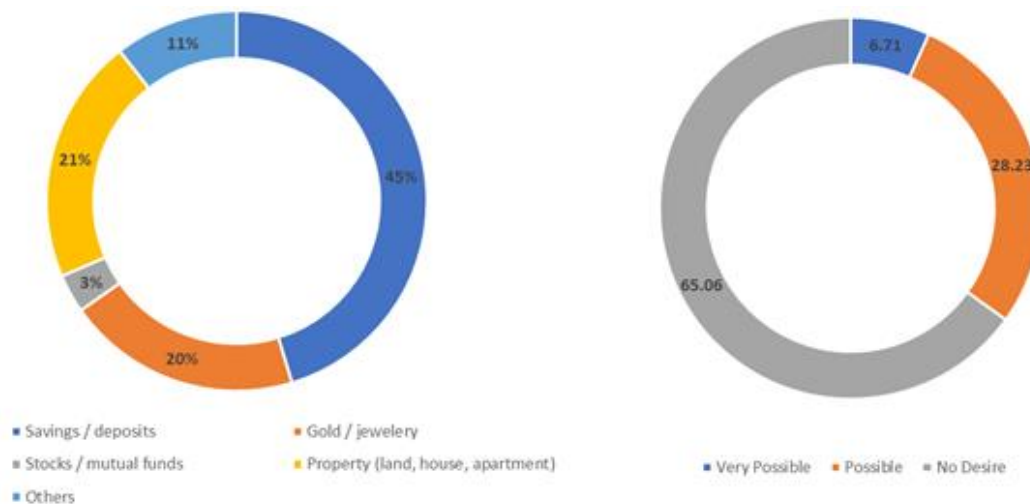


Figure 11. Survey on First Choice Type of Investments in the Next 12 Month, Excess Income Allocation Plan in the Next 12 Months and House Purchase/Construction Plan in the Next 12 Months (Bank Indonesia, 2020)

Millennials will choose properties for their homes or for investment. In this case the investment related to the house is an investment that runs in the form of a rented house or boarding house. In contrast to land, as the subject of investment, the house will be depreciated. The periodic decline in value will be taken into consideration for some people to buy property in the form of a house at this time for at least the next 2 years.

With these factors in mind, the developer and stakeholders must rethink what the customer requires in this situation. Maslow's hierarchy of needs theory is one of the theories related to basic human needs. Based on this theory, it is hoped that we can map what consumers will consider, seen from the consumer purchasing behaviour and consumer purchasing motivation steps. The theory of Abraham Harold Maslow in 1943, Establishing a hierarchy related to the most basic human needs. According to Maslow's theory of needs hierarchy, there were five things that listed as Physiological needs, Safety needs, Belonging and love needs, Respect or respectability needs and Self-actualization needs. The image of Maslow's hierarchy can be seen in the following figure.

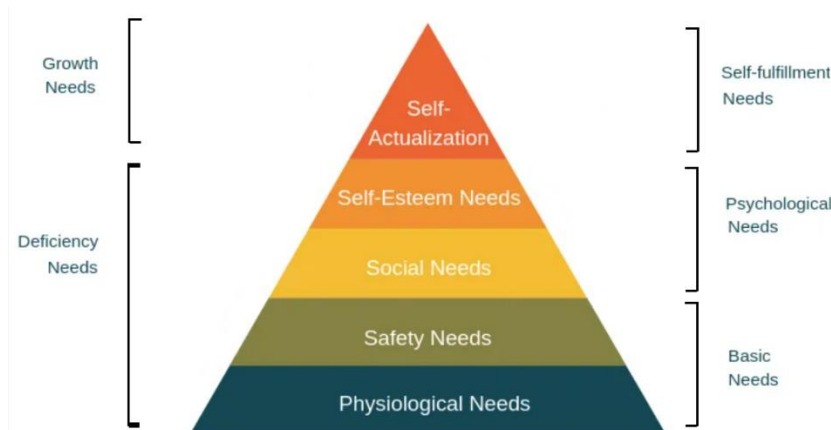


Figure 12. Maslow Hierarchy (PMHNP, 2021)

During this pandemic era, there has been mega shifting related to consumer behaviour. Referring to Maslow's pyramid, consumers are now growing their needs from the top of the pyramid, namely self-actualization and self-esteem, to the bottom of the pyramid, namely food, health, and mental and physical safety.

One of the opportunities the property business has in times like this is to offer the concept of comfort, security, and protection that homes can provide. Millennials will understand that there has been a major shift in behavior to fulfil needs since this pandemic. Some of these changes even have the potential to persist even after the pandemic has passed. Home will always be a place to go home that provides guaranteed safety, comfort, and protection for working, studying, and unwind at home. The concept that brings comfort and open space will be an attractive selling point.

Some developers have started to read the needs of consumers by providing a new normal concept for housing. Housing that can support the needs of working at home, studying at home, healthy air exchange, sufficient light, having enough space, and an open concept house are some of the housing standards that have developed in this "new normal." The ability of developers to read trends and public needs regarding conditions during a pandemic will aid the property's survival during this auspicious time.

CONCLUSION

The objective of this study is to create initial studies on how the coronavirus pandemic affects the millennial generation's housing preferences. As previously stated, despite the government's and investors' efforts to keep the business ecosystem running and performing as expected, consumers have begun to believe that the pandemic crisis will reach a turning point. Though the millennials' housing preferences are still the same, few things are more considered to be more important as an investment during the crisis, such as price, the duration of the mortgage, and cash to investment ratio.

The pandemic crisis persists, and many consumers, particularly the millennial generation, are taking precautionary measures. Most people think about making a more secure and efficient investment, such as buying a small house with a high turnover rate. But they will also demand a reasonable space from their house and facilities such as good internet connection to support their daily lives, good accessibility, and encourage eco-friendly features and concepts.

Further research could use the conceptual framework in terms of the preference of the millennial's generation and the other group of demographics. Lastly, how the study will help the investors understand the consumer and the government to support the economic ecosystem and support through the policies that are suitable for the situation.

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