

Bank Indonesia (BI) set another raise for 7DRRR by 50 bps to 5.25% and added macro prudential policy relaxation on (1) loan-to-value (LTV) ratio, (2) limit on number of credit facilities for indent property and (3) credit disbursement terms in order to support the property sector. These policy relaxations will apply starting on **1st August 2018**, details are discussed below:

Banks as the key player. Despite BI no longer regulating LTV/FTV ratio for first home buyers who are the current backbone of property demand, it does not mean that 0% down payment (DP) will be easily applied. Instead, BI has let each banks with NPL (net and KPR gross) lower than 5% to set their own LTV ratio for first home buyers that are suitable with their risk management and appetite. Therefore, we believe that banks are the key players that will determine how far the relaxation will go, as they now hold the key to greater opportunities, yet with greater risks. We believe that most of the banks will not provide 0% DP because it is too risky. However, we believe it will definitely go lower than before (min. 15% DP). Following the BI announcement on last Friday (29/6), BTN has stated that they are unlikely to provide 0% DP mortgage while having 1% DP program on going, while BNI is interested to apply the program with some terms and conditions applied.

PROPERTY LOAN & FINANCING BASED ON MURABAHAH & ISTISHNA DEEDS					
Property Area	Prior Relaxation			Relaxation	
	Property Loan & Financing			Property Loan & Financing	
	1st	2nd	3rd, etc	1st	2nd, etc
House					
> 70 sqm	85%	80%	75%	-	80%
22-70 sqm	-	85%	80%	-	85%
≤ 21 sqm	-	-	-	-	-
Apartment					
> 70 sqm	85%	80%	75%	-	80%
22-70 sqm	90%	85%	80%	-	85%
≤ 21 sqm	-	85%	80%	-	85%
Shophouse					
	-	85%	80%	-	85%

PROPERTY LOAN & FINANCING BASED ON MMQ & IMBT DEEDS					
Property Area	Prior Relaxation			Relaxation	
	Property Loan & Financing			Property Loan & Financing	
	1st	2nd	3rd, etc	1st	2nd, etc
House					
> 70 sqm	90%	85%	80%	-	85%
22-70 sqm	-	90%	85%	-	90%
≤ 21 sqm	-	-	-	-	-
Apartment					
> 70 sqm	90%	85%	80%	-	85%
22-70 sqm	90%	85%	80%	-	85%
≤ 21 sqm	-	85%	80%	-	85%
Shophouse					
	-	85%	80%	-	85%

Source : Bank Indonesia

Overall, we believe BI's decision to relax the LTV ratio is a choice that is needed in the current situation, considering that BI has increased rates of 75bps in the past few months to maintain Rupiah stability. We are expecting the mortgage rate to be inevitably raised sooner or later. Worth noting, smaller DP also means bigger monthly installments, where it could become a problem for buyers especially when low rates environment has ended. However, we see this move as a positive step to help property buyers, developers, and also banks as it provides more flexibility to adapt in current situation.

Five is better than two. BI is also relaxing the number of credit or financing facilities available through the pre-order mechanism from 2 to 5, extending the limits for investors who already have 2 pre-order property mortgages and wants to add more property to their portfolio. Nevertheless, we believe income rules will strictly be applied for those who use the facilities. Moreover, we believe that buyers who already own a 3rd mortgage is having no issue with their income, as we recognize them as investors who tend to "wait and see" during economic and political uncertainty. However, preparation is never a mistake. When the time comes, the regulation should have already fitted in to support the demand.

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Faster disbursement, better cash flow.

Compensating smaller DP percentage getting paid and possibly higher funding cost for developers ahead, BI is loosening the credit disbursement terms for developers. Previously, a maximum of 40% of the credit will be disbursed only after the foundation is completed, but currently, a maximum of 30% could already be disbursed after the mortgage agreement signing. Worth to know, usually foundation works can last for a month for low-rise buildings and 3-6 months for high rise buildings. Therefore, as faster credit disbursement applies, we believe developers will have better future cash flows which provides more working capital.

Credit Disbursement Terms	
Current Regulation	Relaxation
40% after foundation	30% after loan deeds
30% (high-rise) and 40% (low-rise) after topping-off	20% after foundation
20% (high-rise) and 10% (low-rise) after delivered	40% after topping-off
10% after property title come out	10% after property title come out

Source : Bank Indonesia

Terms and conditions to follow. We think that applying all those relaxation policies will not be as easy as turning the palm of the hand, especially when the risks is on stake. Consequently, we are expecting terms and conditions for those relaxation policies to later be announced in details. Hence, a further look on the terms and conditions for the policies is needed.

Conclusion. We believe this particular move is needed by BI to support the property sector by encouraging first home buyers with smaller DP percentage and compensating developers with faster credit disbursement. Thus, the relaxation will support both demand and supply side while also provide the banking sector with more rooms for credit growth. Going further, the observation on the policies' impact is required, which could be seen starting 2H18.

Although the points discussed above will be a positive sentiment for the property sector, there are challenges ahead to be faced by developers. Some of them are: 1) increase in funding cost, 2) investor's "wait and see" attitude during political year, 3) rising deposit rate as an investment alternative, and 4) weaker than expected demand as competition tightens.

All in all, we are cautiously optimistic on the property sector.

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