Ensuring Fairness: Strategies for Providing Affordable Housing for Low-Income Communities in Urban Indonesia

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Abstract Indonesia's population growth has slowed, yet low-income people still require affordable urban housing. Land scarcity, limited financial options, and complicated home funding provide significant challenges. This study analyses existing literature to find ways to provide cheap housing to Indonesian middle-class residents. The study examines land use, financing, and cash availability. The findings show that MBR cannot get funding due to high costs and strict criteria, while the scarcity of urban land is hindering development. The analysis recommends using unused government land and promoting vertical housing to maximise land use, investigating microfinance and lease-purchase schemes, and simplifying housing fund access. These hurdles can be overcome to provide fair and affordable housing for all in Indonesia, promoting social stability and sustainable urban expansion.

Keywords: affordable housing, low-income communities, land use optimization, vertical housing, urban development


Kata Kunci: perumahan terjangkau, masyarakat berpenghasilan rendah (MBR), optimasi penggunaan lahan, hunian vertikal, pembangunan perkotaan

Submitted: 2024-03-11 | Accepted: 2024-04-03 | DOI: 10.29080/eija.v0i1.2085 | Pages: 46-57
Introduction

The population growth of Indonesia had a decrease from 2010 to 2020. The BPS documented a net increase of 32.56 million individuals between the 2010 and 2020 censuses, equivalent to an average annual growth rate of 3.26 million. The current annual population growth rate stands at 1.25%, which represents a decline from the 1.49% rate observed ten years ago. Generation Z, which consists of those aged 25 and younger, represents the largest population group, accounting for 27.94% of the total population. Despite Indonesia's sluggish population growth, there is still a pressing demand for housing, particularly for low-income communities (Masyarakat Berpenghasilan Rendah/MBR) (Kusnandar, 2020). There are several factors contributing to the increase in demand for city houses. Firstly, villagers are relocating to cities in search of employment and educational opportunities. This influx of people is driving up the need for housing in urban areas. Secondly, the prevalence of nuclear families is on the rise, leading to a greater need for larger houses. Lastly, the number of available houses is not keeping pace with the population expansion, particularly in large cities. Over the next years, Generation Z, which represents the greatest population cohort, will enter into matrimony and require a place to reside. According to (Crysta & Budisusanto, 2017), this will enhance the demand for homes in the future.

There is a need for affordable housing for the MBR, since 48.11% of the population requires it. Many MBRs face difficulties in finding suitable accommodation due of financial limitations. The MBR's purchasing power is constrained due to several factors. Firstly, their income levels are typically insufficient to afford houses at market prices. Secondly, obtaining housing loans is challenging due to stringent eligibility criteria and exorbitant interest rates. Lastly, the escalating housing prices in Indonesia, particularly in major cities, further exacerbate their affordability challenges.

The government has implemented measures like as finance, licencing changes, and fiscal incentives to tackle housing demands, yet the level of need remains substantial. The expected number of units in the ownership housing shortfall is 11.4 million. During the VI National Conference of the Indonesian Simple Housing Developers Association on September 2, 2021, the Vice President of Indonesia emphasised that population growth directly leads to an increase in the need for housing. Therefore, it is imperative for the government, business sector, and community to intensify their efforts in order to address this pressing housing crisis (Kasmawati, 2020). The strategies to address this issue may involve (a) augmenting housing construction, particularly for disadvantaged households, (b) offering subsidies or financial aid to low-income families for home ownership, (c) establishing affordable and high-quality housing initiatives, and (d) leveraging available land for housing development through collaboration between the government, private sector, and universities. Collaboration among all stakeholders is necessary to address Indonesia's housing needs and ensure the
availability of high-quality, cost-effective housing options. The Indonesian government is addressing the housing backlog resulting from insufficient supply relative to community demands. The Ministry of Public Works and Public Housing (PUPR) reported that the housing backlog stood around 7.64 million units in early 2020 (Sururi et al., 2022). The total comprises 6.48 million low-income communities with variable income (MBR), 1.72 million low-income communities with fixed income (MBR), and 0.56 million non-MBR low-income communities. The total consists of 6.48 million MBRs without fixed income, 1.72 million MBRs with fixed income, and 0.56 million MBRs without any revenue. The government's initiatives to address the housing backlog consist of several measures. Firstly, they aim to construct one million houses annually through programmes such as the One Million Houses Programme, Housing Financing Liquidity Facility (FLPP), and Down Payment Assistance (Bantuan Uang Muka/BUM). Secondly, they provide mortgage interest subsidies and down payment assistance to low-income individuals (MBR) to facilitate their purchase of houses. Lastly, they focus on the development of both subsidised and non-subsidized housing options. These strategies aim to mitigate Indonesia's housing backlog and offer high-quality, affordable homes (Azkia, 2017).

The population of the Special Region of Yogyakarta is 3.67 million, with 1.82 million being men and 1.85 million being women. Approximately 68.78% of the population consists of individuals between the ages of 15 and 64, who are considered to be in their productive years. Out of the total, 748,757 are classified as unproductive, while 396,737 are categorised as unproductive. Yogyakarta has the potential to enhance its economy by the presence of a significant population in the productive age group, which offers a demographic advantage. The working-age population possesses the ability to offer skilled and innovative labour. Significant populations can serve as domestic markets for products and services. The housing demand in DI Yogyakarta is robust for several reasons. Firstly, there is a steady growth in population, although it is smaller compared to other major cities in Indonesia. Secondly, residents from rural areas of Yogyakarta are moving to the city in search of educational and employment opportunities. (c) The number of nuclear families in Yogyakarta is growing, which is leading to a higher demand for bigger homes. (d) The supply of housing is not keeping up with the increase in population, particularly in metropolitan regions (Kusnandar 2020).

Yogyakarta, similar to other major cities, undergoes urban sprawl. Urban sprawl refers to the decentralised and automobile-dependent growth of residential neighbourhoods in less densely populated areas (Hayden, 2009). The construction of new roadways in Yogyakarta's outlying areas leads to the expansion of urban development. This accessibility facilitates the transformation of peripheral agricultural area into urban territory, encompassing the development of shops, apartments, and retail complexes. (a) The number of individuals travelling to the city core for employment, education, and other engagements is increasing due to the expansion of surrounding towns. The presence of more vehicles on the road leads to an increase in traffic and the emission of harmful substances into the air. Additionally, the conversion of agricultural land into urban areas can result in a reduction of natural green spaces, as well as an increase in
water pollution and the occurrence of flooding. Furthermore, urban sprawl can have an impact on the lifestyles and cultures of citizens living in the outskirts of cities (Giyarsih, 2010).

The issue of providing housing for low-income Indonesian households is a significant subject that presents numerous challenges and potential advantages. The primary concern is the insufficient allocation of funds, given that mortgage loans constitute a mere 2.9% of the Gross Domestic Product (GDP). Economically disadvantaged households have challenges in obtaining mortgages for home purchases. In addition to the issue of housing affordability, 45.1% of households in Indonesia reside in homes that do not meet the required standards, according to data from 2018. The problems include inadequate building reliability and environmental impact, as well as the limited accessibility to public infrastructure and services due to the remote location of low-income housing away from the city centre. Inadequate government coordination and collaboration exacerbate the problem. These challenges offer chances for optimisation. As part of the 2020-2024 National Medium-Term Development Plan, the government made a commitment to construct 1 million residences annually in order to alleviate the housing backlog. Furthermore, there is a noticeable increase in the private sector's inclination towards MBR housing. Utilising technology to enhance the efficiency and efficacy of development processes. Ultimately, the objective is to increase public consciousness on the importance of suitable housing (Ministry of Public Works, 2015).

To address these challenges and capitalise on these possibilities, it is imperative for the government to enhance the accessibility of MBR home finance by means of mortgage subsidies, microfinance institutions, and innovative financing approaches. Furthermore, enhancing the dependability of construction and ensuring environmental compatibility should be given utmost importance in order to enhance the quality of low-income housing (Bramantyo et al., 2019). Furthermore, the provision of affordable and inclusive housing in key locations with convenient access to essential infrastructure and public amenities is of utmost significance (Kusliansjah & Histanto, 2017).

Furthermore, well-defined legislation and effective communication platforms enhance the coordination and collaboration of the government. By fostering collaboration between the government, corporate sector, and community, and leveraging innovative technology and solutions, it is highly probable that the quality of MBR housing in Indonesia will enhance. This ongoing effort would facilitate the provision of adequate and affordable housing for all citizens of Indonesia, contributing to sustainable economic development at the national level.

There is a strong inclination to construct multi-story residential buildings and provide housing development certifications in Kabupaten/Kota. The licencing administration has neglected to keep pace with this trend, showing less concern for legality, particularly in terms of spatial utilisation certainty (as outlined in the City Spatial Detail Plan (Rencana Detail Tata Ruang Kota/RDTRK)). Febriani, (2019) argues that this will impede the progress of constructing houses.

An assessment of the execution of the Repair of Uninhabitable Homes (Rumah
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Tidak Layak Huni/RUTILAHU Programme for Low-Income Communities (MBR) in the Pangandaran Regency Tourism Area by Taufik & Sriharyati, (2020) was determined that the RUTILAHU Repair Programme was beneficial and efficient in eradicating RUTILAHU. The evaluation of its implementation received an average score of 3.84, indicating a high level of agreement. Despite this positive feedback, the local government is still in the process of proposing it.

The literature review demonstrates that urban MBR housing is a complex issue that necessitates innovative and sustainable solutions. The main inquiry is how to obtain cost-effective urban residences with MBR-free financing, including:
1) Land scarcity: Limited availability of urban space and high land costs provide challenges for affordable housing.
2) Low-income households experience a disparity between their income and the cost of housing: In urban areas, housing prices often surpass the financial capacity of impoverished individuals, and;
(3) Restricted financial access: Individuals with low incomes face difficulties in obtaining mortgages with favourable interest rates and conditions.

Methods
This study employs a comprehensive literature review approach to investigate the provision of affordable housing in metropolitan locations, with a specific focus on three key elements: the availability of land, ways for financing, and the accessibility of sources for housing funds. The approach entails a methodical exploration of a wide range of literature sources, such as peer-reviewed journals, books, articles, and official reports, utilising appropriate keywords. The selected literature is thoroughly evaluated based on its pertinence, credibility of publishing, and congruence with study objectives. The extracted data is further analysed to discern prevalent patterns, tendencies, and profound understandings related to the research subjects. By synthesising findings, one can develop policy implications and recommendations to effectively tackle gaps and issues in the supply of low-income housing. The study seeks to provide significant insights to policymakers, urban planners, and housing stakeholders, with the goal of promoting inclusive and sustainable urban development methods.

Results and Discussion
Urban Land Availability
Urbanisation refers to the worldwide shift from rural to urban places. Indonesia is experiencing significant urbanisation, especially in the cities of Jakarta, Surabaya, and Bandung. This phenomenon influences the level of urban construction concentration (Sabitha, 2022). Economic reasons exert the greatest influence on urbanization, while there are also other contributing variables. Rural individuals migrate to urban areas in search of improved employment opportunities and higher living conditions. Urbanization is also influenced by lifestyle, education, and public services. Urbanization has a significant impact on building density in various ways:
a) The increasing urban population is the main factor behind the growing demand for housing. The construction of houses and apartments leads to a rise in building density.
b) Land use change: Urban areas are converting unused land and agricultural zones into residential communities, infrastructure, and commercial sectors. This leads to a
decrease in available open space and an increase in the density of construction. The rapid increase in urban population puts significant pressure on public infrastructure, such as transportation, water, and sanitation systems. Limitations in infrastructure can lead to problems such as traffic congestion, inadequate access to clean water, and sanitation difficulties.

An effective approach to offering MBR housing in urban areas involves utilising unutilized land owned by the local government. Take into account these tactics:

− Municipal authorities have the ability to establish land banks using unoccupied government-owned land. It is feasible to transfer these locations for the purpose of affordable housing development (Noegroho, 2012).
− Municipalities have the ability to collaborate with private developers in order to establish mixed-income, mixed-use housing on publicly-owned land. The cooperation schemes that can be utilized include BOT (Bantuan operasional Tunai or Cash Operational Assistance), Joint Venture, and PPP (Public-Private Partnership) as proposed by (Djurdjani et al., 2022), and
− Municipal authorities have the ability to construct streamlined vertical residential units (apartments) on publicly owned property. This enhances land efficiency and reduces development costs.

2) Assess potential strategies for maximizing land use efficiency in the development of residential properties in metropolitan areas. The scarcity of land in urban areas poses challenges in providing cheap housing options for persons with low incomes. These factors result in the proliferation of slums, the conversion of land, and a crisis in housing availability. These problems can be resolved by maximizing the utilization of urban land. An alternative is to exploit local government land that is currently empty or underutilized. Cost-effective MBR (Middle-Income Band) homes can be constructed on unoccupied land, while underutilized property can be rejuvenated or converted into a development that serves several purposes (Widagdo, 2015).

Promoting the construction of vertical dwellings is also effective. Vertical housing developers in the MBR region are eligible to obtain government subsidies, benefit from relaxed licensing regulations, and are encouraged to adopt environmentally friendly and energy-efficient design and construction standards. Combining different types of land use and designing developments around public transport can optimize the use of land and enhance the ease of access for residents. Mixed-use development encompasses a combination of residential, commercial, and office facilities, whereas transit-oriented development focuses on constructing
housing in close proximity to public transportation centers. Equally crucial is the augmentation of construction density alongside the implementation of adequate infrastructure and public space. Implementing green building and smart city principles can enhance the quality of life for inhabitants. Collaboration between the government, developers, and communities is essential for the successful implementation of these ideas. Additional research is required to determine the most effective strategies in each place, taking into account the context and geographical peculiarities. Community input is also necessary for planning and development. Implementing strategic land use optimization in urban regions can effectively address the housing needs of low-income households by providing affordable housing options and reducing the housing backlog. This will enhance the quality of life within the community and facilitate the progress of urban development.

**Financing strategy**

Evaluate the available MBR financing alternatives, such as subsidized mortgages, housing savings plans, and government assistance (Hasbi & Hadi, 2016).

The existing financial and economic literature has primarily concentrated on the volatility of property prices, specifically examining housing finance arrangements, including both sharia-compliant and conventional methods. Every financing pattern has undergone testing to assess its ability to withstand house price fluctuations after the loan has been repaid.

The analysis of *murabahah*-based housing finance has primarily concentrated on Islamic banks such as Bank Syariah Mandiri and Bank BRI Syariah. Obtaining data on the installment payments for *Murabahah* home loan from these financial institutions is essential for evaluating their performance and determining their influence on fluctuations in property prices. The research also analyses the installment payments of conventional house loans provided by national private banks, which use consumer credit interest rates as the basis for calculation.

Although *murabahah* and regular mortgage plans have different concepts, both experience capital losses as a result of property price fluctuation. Both *murabahah* schemes and conventional loans demonstrate that the market value of the house increases after the financing period, surpassing its initial value. This study demonstrates that both financing patterns are susceptible to fluctuations in house prices. A comprehensive approach is required to address this problem. One suggestion is to create Islamic financial tools that can protect clients’ investments from fluctuations in house prices. Another recommendation is to enhance government regulations to ensure stability in housing prices.

This literature review examines the function and limitations of *murabahah* housing finance schemes and standard mortgages in relation to house price fluctuations.
volatility. Gaining a more comprehensive comprehension of market dynamics and financial instruments can contribute to the maintenance of stability in the housing sector and the protection of stakeholder interests.

2) Assessing the efficacy and cost-effectiveness of financing programs for MBR house ownership.

The progress of housing development in Indonesia is impeded by a scarcity of MBR housing. The effectiveness and efficacy of various financial plans in addressing the housing needs of MBR require additional investigation (Azkia, 2017).

This literature review analyses the effectiveness and cost-effectiveness of mortgage loans (Kredit Pemilikan Rumah/KPR), interest differential subsidies (Subsidi Selisih Bunga/SSB), and housing finance liquidity facilities. This analysis focuses on the expenses related to building, land acquisition, licensing, and marketing management. Therefore, ensuring cost effectiveness in construction is crucial for making MBR dwellings more affordable. Local government property might be utilized for constructing multi-story residential buildings for MBR in order to minimize land expenditures, which constitute a significant portion of manufacturing costs. The utilization of a modular system in the construction of wall, floor, and building structural components leads to a reduction in construction costs (Dyastari et al., 2017).

Another strategy to reduce construction costs is to establish agreements between technical ministries and local governments, which would streamline the licensing process. The objective is to establish a financial structure that provides assistance to MBR in covering production costs through easily doable installments that impact these programs.

**Housing Fund Access**

Assess the obstacles that hinder MBR from obtaining housing funding, such as complicated eligibility criteria and exorbitant interest rates (Prasetyo & Soesilo, 2022)

The study utilizes panel data from 17 countries to analyses mortgage interest rates across institutionalized housing finance systems across different economic contexts. Based on the assumption that mortgage rates are interconnected, the analysis reveals that banks play a vital role in the majority of home finance systems. The 3SLS (Three-Stage Least Squares) technique demonstrates that both economic and institutional factors have a simultaneous impact on mortgage interest rates in both industrialized and emerging countries. Supply-side factors that influence changes in mortgage interest rates include the source of funds, bank profitability, efficiency, prevailing interest rates, and inflation. Mortgage interest rates are influenced by demand-side factors such as economic growth and population. Housing loans, urban population, inflation, and house price index are only significant in developed countries. Nevertheless, currency exchange rates
exclusively impact mortgage rates in poorer countries. The findings provide insight into the development of domestic and international policies related to home finance. This facilitates comprehension of housing market dynamics and enables financial practitioners and regulators to anticipate the repercussions of economic and financial policies.

Individuals who do not match the banking criteria for house loans can choose for the lease-purchase plan, also referred to as leasing or leasing with a buyout option (Nurhayati, 2021). Prospective homeowners have the option to lease a house from a landlord or financial institution in exchange for a regular monthly payment. The property can be purchased after the expiration of the lease period. Rent payments might serve as a down payment for a house. This lease-purchase strategy may be attractive to individuals with limited access to traditional bank financing due to credit difficulties or low income. It allows them to reside in their own homes without having to meet the conditions set by financial institutions. Nevertheless, this lease-purchase technique encompasses disadvantages and risks. Rental fees may exceed mortgage installments, and the tenant may not exercise the option to purchase the house upon the expiration of the rental period, resulting in a loss of the funds expended. Prior to entering into a lease-purchase plan, thoroughly assess all the facets. Understanding the terms and consequences of a lease-purchase agreement is essential for safeguarding the MBR's interests.

Taking inspiration from Malaysia, the government focuses on urban poor housing initiatives, particularly in Kuala Lumpur, to guarantee an adequate supply of high-quality and affordable homes. These projects are specifically designed to meet the needs of metropolitan areas in response to the increase in population and the high expense of living. The Ministry of Housing and Local Government oversees several housing programs, including the Ikram House Program, Transit House Program, Public Housing Program for Ownership, and Public Housing Program for Rent. According to Rameli, (2022), these schemes provide options for families to either own or rent a home, depending on their specific circumstances and requirements.

*Majlis Agama Islam Wilayah Persekutuan* also provides assistance to the underprivileged in metropolitan areas. The incentives provided are House Rent Deposit Assistance, Monthly House Rent, Building/Repair Assistance, and Low Rent House Purchase Deposit Assistance. These policies aim to assist individuals in need by improving their access to adequate housing. These housing initiatives assist impoverished urban residents. They enhance the quality of housing, align supply and demand, and facilitate increased homeownership or rental opportunities through an efficient distribution system. These projects provide immediate solutions...
but have the capacity to enhance urban well-being and social cohesion in the long run. Although housing rules and regulations vary from country to country, low-income housing choices often have a shared objective. The Indonesian legal system, as outlined by (Sirait et al., 2021), ensures that every individual residing in the country has the entitlement to housing that is both of high quality and reasonably priced. This serves as a testament to the government's dedication to achieving fairness in housing.

The literature review underscores the potential of the Affordable Housing model as a viable solution for Low-Income Communities (MBR) to access affordable and decent housing. This model presents several benefits that address the housing shortage challenges faced by the MBR;

*Land Efficiency:* The Affordable Housing model promotes vertical construction to conserve land use, which is a critical issue in urban settings. Maximizing the use of land, particularly that owned by local governments and not yet fully utilized, is crucial for providing affordable housing options for the impoverished (Djurdjani et al., 2022; Noegroho, 2012; Widagdo, 2015).

*Lease-Purchase Scheme:* Through the lease-purchase scheme, MBRs are given the chance to live in Affordable Housing units without the burden of heavy initial payments. This arrangement enables them to access decent housing while safeguarding their financial health. It also offers low-income families the opportunity to eventually own an Affordable Home after completing payments over a specified period (Hasbi & Hadi, 2016; Nurhayati, 2021; Prasetyo & Soesilo, 2022).

*Opportunity for Home Ownership:* The Affordable Housing model affords MBR the opportunity to own a decent house at an affordable price. This directly enhances the quality of life for the poor and supports sustainable development by fostering stable and productive communities (Nurhayati, 2021; Sirait et al., 2021).

**Conclusion**

This study emphasises the importance of maximising the use of government-owned property and developing comprehensive finance systems to ensure that citizens have access to enough and affordable housing. By optimising land usage and implementing streamlined financing methods specifically designed for moderate- and middle-income individuals, the government may facilitate fair and equal access to housing for everyone. By advocating for these efforts, the government is actively working towards achieving equity and justice in addressing housing requirements. This effort aims to create a society where every person may exercise their fundamental right to obtain safe and reasonably priced home.

**Author(s) Statement**

Authors with this declare that this research is free from conflicts of interest with any party, has never been published anywhere and has complied with the rules of publication ethics. This article is also part
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10.29080/eija.V9i1.2085

of the research manuscript presented at the 5th VISTA National Seminar with the theme “Architecture and Slum Settlements,” organized by the Architecture Program of Widya Mandira Catholic University

Acknowledgements

Thanks to all those who assisted in this research

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