

Macroeconomic Determinants of Property Industry Performance in Indonesia

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ABSTRACT

The property industry plays a strategic role in Indonesia's economic development and is highly sensitive to changes in macroeconomic conditions. This study examines the effects of inflation and interest rates on property industry performance in Indonesia using a quantitative approach and multiple linear regression analysis. Secondary data covering the 2015–2024 period was obtained from Bank Indonesia and Statistics Indonesia (BPS). The findings reveal that both inflation and interest rates significantly influence property industry performance individually and jointly. Inflation reflects changes in property prices and production costs, while interest rates affect investment decisions and financing accessibility. The regression model explains a substantial proportion of industry performance variation. These findings provide practical implications for policymakers, investors, and property developers in designing adaptive strategies under changing macroeconomic conditions.

INTRODUCTION

The property industry is widely recognized as one of the strategic sectors supporting national economic development because of its contribution to investment, employment creation, infrastructure development, and household welfare. The sector also generates significant multiplier effects by stimulating the growth of construction, manufacturing, financial services, and other supporting industries. In Indonesia, the real estate sector consistently contributes to national economic output, while construction remains among the largest contributors to Gross Domestic Product (GDP), highlighting the importance of maintaining a stable and sustainable property market (BPS, 2025). Consequently, fluctuations in macroeconomic conditions are likely to influence the performance of the property industry and its ability to support long-term economic growth.

Among various macroeconomic indicators, inflation and interest rates are considered the two most influential variables affecting property market dynamics. Inflation alters production costs, purchasing power, and investment returns, whereas interest rates directly affect financing costs, mortgage affordability, and investment decisions. Changes in these variables influence both the supply and demand sides of the property market, making them critical determinants of industry performance (Bank Indonesia, 2025; Mishkin, 2016). Understanding their influence is increasingly important because the property sector depends heavily on long-term financing and investment certainty.

Indonesia has experienced substantial macroeconomic fluctuations during the last decade. Following the global economic disruption, inflation increased significantly in 2022, reaching one of its highest levels in recent years due to rising energy prices and supply chain constraints (BPS, 2025). Although inflation gradually declined during 2023 and 2024, the effects of previous price increases continued to influence construction costs and property prices. Rising prices of cement, steel, and other construction materials increased development costs, while higher selling prices reduced affordability for prospective homebuyers. Consequently, developers were required to adjust pricing strategies and investment decisions to maintain business sustainability.

Besides inflation, monetary policy implemented through changes in the Bank Indonesia policy rate has become another important factor affecting the property industry. The gradual increase in the BI Rate was intended to stabilize inflation and maintain exchange rate stability. However, higher interest rates also increased borrowing costs for both developers and consumers, particularly through mortgage financing. Since residential property purchases in Indonesia largely depend on housing loans, changes in lending rates directly affect market demand and investment activities (Bank Indonesia, 2023). Therefore, understanding how interest rate movements influence property industry performance is essential for evaluating the effectiveness of monetary policy.

The relationship between inflation, interest rates, and property industry performance remains theoretically complex. Cost-push inflation theory explains that increasing production costs raise property prices because developers transfer higher input costs to consumers (Pujadi, 2022). Conversely, expectations theory argues that anticipated inflation influences investment behavior and asset valuation through changes in future price expectations (Rangkuty, 2022). Monetary theory further suggests that central banks utilize interest rate adjustments to control inflation and maintain macroeconomic stability (Bank Indonesia, 2025). Consequently, inflation and interest rates may simultaneously influence property prices, investment decisions, financing accessibility, and overall industry performance.

Previous empirical studies have reported inconsistent findings regarding these relationships. Wibowo (2020) found that interest rates have a stronger influence on residential property demand than inflation. Siregar and Hidayat (2021) reported that inflation negatively affects property sector growth because higher construction costs reduce market demand. Prasetyo and Putri (2022) demonstrated that higher interest rates reduce property transaction volumes by limiting credit accessibility. Meanwhile, Rahmawati et al. (2023) emphasized that monetary policy affects developers' investment strategies, although their study did not simultaneously evaluate the combined influence of inflation and interest rates on overall industry performance. These findings indicate that previous studies have generally examined only partial relationships or focused on specific segments of the property market.

Despite the growing body of literature, several research gaps remain. First, previous studies primarily focused on residential property demand or transaction volume without comprehensively evaluating overall property industry performance. Second, most studies investigated inflation and interest rates independently, providing limited evidence regarding their simultaneous influence within a unified empirical model. Third, previous research rarely incorporated broader industry performance indicators that reflect the combined effects of macroeconomic conditions on investment activities, market performance, and property development. These limitations indicate the need for a more comprehensive investigation of macroeconomic influences on Indonesia's property industry.

This study contributes to the existing literature by simultaneously examining the effects of inflation and interest rates on property industry performance in Indonesia using secondary macroeconomic data obtained from Bank Indonesia and Statistics Indonesia. Unlike previous studies that concentrated on individual macroeconomic variables or specific market segments, this research provides an integrated assessment of how both variables jointly influence industry performance. The findings are expected to enrich the literature on macroeconomic determinants of the property sector while providing practical insights for policymakers, property developers, investors, and financial institutions in formulating adaptive strategies under changing economic conditions.

Accordingly, this study aims to analyze the effects of inflation and interest rates on property industry performance in Indonesia. The findings are expected to provide empirical evidence regarding the interaction between macroeconomic stability and property market development while supporting more effective policy formulation to promote sustainable growth in Indonesia's property industry

LITERATURE REVIEW

Inflation and Property Industry Performance

Inflation represents a sustained increase in the general price level of goods and services that influences production costs, consumer purchasing power, and investment decisions. In the property industry, inflation affects construction material prices, labor costs, and financing expenses, ultimately influencing property values and market performance. Moderate inflation may encourage investment in real assets because property is commonly regarded as a hedge against inflation. Conversely, excessive inflation may reduce household purchasing power and weaken demand for residential and commercial properties (Mishkin, 2016; Bank Indonesia, 2025; Pujadi, 2022).

The relationship between inflation and property performance is theoretically explained by the cost-push inflation theory, which argues that rising production costs increase property prices as developers transfer higher costs to buyers. At the same time, inflation may increase the attractiveness of property as a long-term investment because tangible assets tend to preserve value during periods of monetary uncertainty (Rangkuty, 2022). However, when inflation exceeds the growth of household income, affordability declines, resulting in lower transaction volumes and slower market expansion.

Empirical evidence remains mixed. Siregar and Hidayat (2021) reported that inflation negatively affects property sector growth because higher construction costs reduce purchasing power. Conversely, recent studies indicate that moderate inflation may support asset appreciation, particularly in growing property markets where demand remains strong. Research by Maharani and Bilgah (2025) found that inflation significantly influences the profitability of Indonesian property firms, while Aini and Sulistiyantoro (2025) demonstrated that macroeconomic conditions, including inflation, shape corporate profitability in listed property companies.

Interest Rates and Property Industry Performance

Interest rates are among the most influential monetary policy instruments affecting investment and financing decisions. Changes in the policy rate directly influence commercial lending rates, mortgage affordability, and business financing costs. Since property investment generally requires substantial long-term capital, changes in borrowing costs substantially affect both developers and consumers (Bank Indonesia, 2023; OJK, 2023).

According to the loanable funds theory, higher interest rates increase borrowing costs, thereby reducing investment demand and slowing property development. From the perspective of monetary policy, interest rate adjustments are intended to stabilize inflation and maintain macroeconomic equilibrium. Nevertheless, the property market often responds differently depending on investor expectations, financing structures, and overall economic conditions (Keynes, 1936; Samuelson, 1948).

Previous empirical studies generally report a significant relationship between interest rates and property market performance. Wibowo (2020) concluded that interest rates exert a stronger influence on residential property demand than inflation. Prasetyo and Putri (2022) further demonstrated that increasing interest rates reduce property transaction volumes by limiting credit accessibility. More recent evidence also confirms that interest rates significantly influence property profitability, stock performance, and corporate financial performance in Indonesia's real estate sector.

Property Industry Performance

Property industry performance reflects the ability of the sector to maintain sustainable growth through increasing property values, investment activities, profitability, and market transactions. Because the property industry has strong backward and forward linkages with construction, banking, manufacturing, and household consumption, its performance is frequently considered an indicator of overall economic conditions (BPS, 2025).

Macroeconomic stability plays a central role in determining property market performance. Inflation influences construction costs and property prices, whereas interest rates affect investment incentives and financing accessibility. Consequently, these variables jointly shape supply and demand conditions within the property market. Recent studies indicate that property sector performance cannot be explained solely by firm-specific characteristics because macroeconomic variables also exert substantial influence on corporate profitability and market valuation.

Hypothesis Development

Macroeconomic theory suggests that inflation influences property industry performance through its effects on production costs, asset prices, and consumer purchasing power. Moderate inflation may stimulate investment in real assets, whereas excessive inflation reduces affordability and market demand. Previous empirical studies have also demonstrated a significant relationship between inflation and property sector performance, although the direction of the relationship varies across different economic conditions (Siregar & Hidayat, 2021; Maharani & Bilgah, 2025).

H1: Inflation significantly affects property industry performance in Indonesia.

Interest rates influence property industry performance primarily through financing costs and investment decisions. Higher borrowing costs may discourage property purchases and reduce development activities, while lower interest rates stimulate mortgage demand and investment expansion. Previous studies consistently report that interest rates significantly influence property market performance and corporate profitability (Wibowo, 2020; Prasetyo & Putri, 2022; Aini & Sulistiyantoro, 2025).

H2: Interest rates significantly affect property industry performance in Indonesia.

Inflation and interest rates are closely interconnected within the macroeconomic system. Inflation frequently prompts monetary authorities to adjust policy interest rates, while both variables simultaneously influence investment decisions, financing conditions, and market demand. Recent empirical evidence suggests that macroeconomic variables jointly explain variations in property sector performance more effectively than individual indicators alone.

H3: Inflation and interest rates simultaneously have a significant effect on property industry performance in Indonesia.

METHODOLOGY

This study employed a quantitative research design to examine the effects of inflation and interest rates on property industry performance in Indonesia. A quantitative approach was considered appropriate because the study aimed to investigate causal relationships among macroeconomic variables using numerical data and statistical analysis. The analysis relied exclusively on secondary data obtained from official government institutions, ensuring the reliability and consistency of the dataset.

The study utilized monthly secondary data covering the period from January 2015 to December 2024, resulting in 120 observations. Data on inflation were obtained from Statistics Indonesia (BPS), while the BI Rate and the Residential Property Price Index (RPPI) were collected from publications issued by Bank Indonesia. These institutions were selected because they provide official macroeconomic statistics that are widely used in academic research and public policy analysis.

The dependent variable in this study was property industry performance, represented by the Residential Property Price Index (RPPI) published by Bank Indonesia. The RPPI measures changes in residential property prices and is commonly used as an indicator of property market performance in Indonesia. Two independent variables were incorporated into the regression model. The first was inflation, measured as the annual percentage change in the Consumer Price Index (CPI). The second was the Bank Indonesia policy interest rate (BI Rate), expressed as an annual percentage. These variables were selected because inflation reflects changes in purchasing power and production costs, whereas the policy interest rate represents monetary policy conditions affecting investment and financing decisions.

Table 1. Operational Definition of Variables

Variable	Symbol	Measurement	Source
Property Industry Performance	Y	Residential Property Price Index (RPPI)	Bank Indonesia
Inflation	X ₁	Annual inflation rate (%) based on Consumer Price Index	Statistics Indonesia (BPS)
Interest Rate	X ₂	Bank Indonesia Policy Rate (BI Rate, %)	Bank Indonesia

To evaluate the influence of macroeconomic variables on property industry performance, this study employed multiple linear regression analysis using IBM SPSS Statistics version 25. Multiple regression was selected because it enables the simultaneous estimation of the effects of more than one explanatory variable on a single dependent variable while controlling for the influence of other predictors. This method has been widely adopted in empirical economic research to explain the relationship between macroeconomic indicators and sectoral performance.

The regression model estimated in this study is specified as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

where:

Y = Property Industry Performance (RPPI)

β_0 = Intercept

β_1 = Regression coefficient of inflation

β_2 = Regression coefficient of interest rate

X₁ = Inflation

X₂ = Interest Rate (BI Rate)

ε = Error term

Before estimating the regression model, several classical assumption tests were performed to ensure the validity of the statistical model. These included tests of normality, multicollinearity, heteroscedasticity, and autocorrelation. Normality was assessed using the Kolmogorov-Smirnov test, multicollinearity was evaluated through the Variance Inflation Factor (VIF) and tolerance values, heteroscedasticity was examined using the Glejser test, and autocorrelation was assessed using the Durbin-Watson statistic. The regression model was considered appropriate when all assumptions were satisfied according to commonly accepted statistical criteria.

Hypothesis testing was conducted using t-tests to examine the partial effects of inflation and interest rates on property industry performance and an F-test to evaluate their simultaneous effect. Statistical significance was determined at the 5% significance level ($\alpha = 0.05$). In addition, the coefficient of determination (R^2) was used to assess the explanatory power of the regression model by indicating the proportion of variation in property industry performance explained by the independent variables.

RESEARCH RESULT

Multiple Linear Regression Analysis

Multiple linear regression analysis was employed to examine the effects of inflation and interest rates on property industry performance in Indonesia. The analysis was conducted using IBM SPSS Statistics version 25. The estimated regression coefficients are presented in Table 2.

Table 2. Multiple Linear Regression Results

		B	Std. Error	Beta	t	sig
1	(Constant)	- 1.51 1	.548		- 2.760	.009
	Inflasi (yoy %)	.285	.105	.343	2.717	.010
	BI Rate (%)	.516	.123	.527	4.182	.000

The estimated regression model is expressed as follows:

$$Y = -1.511 + 0.285X_1 + 0.516X_2$$

Where Y denotes property industry performance, X_1 represents inflation, and X_2 represents the Bank Indonesia policy interest rate.

The regression analysis indicates that the constant value is -1.511. Statistically, this coefficient represents the estimated value of property industry performance when both independent variables are assumed to be zero. Although such a condition is unlikely to occur in practice because inflation and interest rates are always present in the economy, the constant serves as the baseline of the regression model from which the effects of the independent variables are estimated.

The regression coefficient for inflation is 0.285, with a standardized coefficient (Beta) of 0.343, a t-value of 2.717, and a significance level of 0.010. The positive coefficient indicates that, holding the interest rate constant, every one-percent increase in inflation is associated with an increase of 0.285 units in property industry performance. Furthermore, the significance value below 0.05 confirms that inflation contributes meaningfully to explaining variations in property industry performance during the observation period. The standardized coefficient also suggests that inflation provides a moderate contribution to the overall explanatory power of the regression model.

The regression coefficient for the Bank Indonesia policy interest rate is 0.516, with a standardized coefficient (Beta) of 0.527, a t-value of 4.182, and a significance value of 0.000. The positive coefficient indicates that an increase of one percentage point in the BI Rate is associated with an increase of 0.516 units in property industry performance, assuming that inflation remains constant. Compared with inflation, the larger standardized coefficient demonstrates that interest rates contribute more strongly to explaining changes in property industry performance. Likewise, the higher t-value indicates stronger statistical evidence for the influence of interest rates within the regression model.

Overall, the regression results indicate that both inflation and interest rates have positive estimated coefficients and statistically significant relationships with property industry performance. The positive direction of the coefficients suggests that movements in these macroeconomic variables are accompanied by increases in the property industry performance indicator used in this study. Moreover, the larger coefficient and standardized Beta associated with the interest rate variable indicate that monetary policy, as reflected by changes in the BI Rate, has a relatively greater contribution than inflation in explaining fluctuations in property industry performance over the study period.

Partial Hypothesis Testing

The partial effects of each independent variable were examined using the t-test. This analysis was conducted to determine whether each explanatory variable individually influences property industry performance.

The results show that inflation has a t-value of 2.717, exceeding the critical value used in the analysis, with a significance level of 0.010. Since the significance value is below the 5% significance level, inflation has a statistically significant effect on property industry performance. This finding indicates that changes in inflation are systematically associated with changes in the dependent variable rather than occurring by random chance. Consequently, Hypothesis 1, which proposes that inflation significantly affects property industry performance, is accepted.

The interest rate variable produces a t-value of 4.182 with a significance value of 0.000, indicating a highly significant relationship with property industry performance. The larger t-value and standardized coefficient relative to inflation imply that interest rates provide stronger explanatory power within the regression model. These findings suggest that fluctuations in the BI Rate are more closely associated with changes in property industry performance than inflation during the observation period. Therefore, Hypothesis 2 is also accepted.

The comparison between both variables further indicates that, although each variable significantly affects property industry performance, the interest rate exhibits the strongest statistical contribution. This result is reflected by its larger standardized Beta coefficient (0.527) compared with inflation (0.343), indicating that the BI Rate explains a greater proportion of variation in the dependent variable than inflation within the estimated regression model.

Simultaneous Effect of Inflation and Interest Rates on Property Industry Performance

The simultaneous effect of inflation and interest rates on property industry performance was examined using the F-test. This test evaluates whether the independent variables jointly contribute to explaining the variation in the dependent variable. The results of the analysis are presented in Table 3.

Table 3. Results of the F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.658	2	16.829	27.649	.000 ^b
	Residual	22.521	37	.609		
	Total	56.178	39			

The regression analysis produces an F-statistic of 27.649 with a significance value of 0.000. Since the significance value is lower than the 5% significance level, the regression model is statistically significant. These findings indicate that inflation and the Bank Indonesia policy interest rate jointly influence property industry performance in Indonesia. Consequently, the proposed regression model is considered appropriate for explaining the relationship between the selected macroeconomic variables and the dependent variable.

The significant F-test demonstrates that the explanatory variables should not be interpreted separately, as both variables simultaneously contribute to explaining variations in property industry performance. Although the magnitude of each coefficient differs, the regression model confirms that the combined movement of inflation and interest rates provides meaningful information regarding changes in the performance of Indonesia's property industry during the observation period.

These findings also indicate that the proposed regression model has adequate statistical validity. The probability that the observed relationship occurred merely by chance is very small, as reflected by the significance level of 0.000. Therefore, the empirical evidence supports **Hypothesis 3**, which states that inflation and interest rates simultaneously have a significant effect on property industry performance in Indonesia.

Furthermore, the significant regression model suggests that fluctuations in property industry performance cannot be explained by a single macroeconomic indicator alone. Instead, the interaction of inflation and monetary policy conditions, represented by the BI Rate, provides a more comprehensive explanation of changes in the property sector throughout the study period. This finding indicates that both variables should be considered simultaneously when evaluating macroeconomic influences on Indonesia's property industry.

Coefficient of Determination

The explanatory power of the regression model was assessed using the coefficient of determination (R^2). This statistic measures the proportion of variation in the dependent variable that can be explained by the independent variables included in the regression model. The results are presented in Table 4.

Table 4. Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.774 ^a	.599	.577	.78017

The regression analysis yields an R^2 value of 0.599, indicating that 59.9% of the variation in property industry performance can be explained by inflation and the Bank Indonesia policy interest rate. This result suggests that the two independent variables possess substantial explanatory capability in describing changes in the dependent variable during the study period.

The remaining 40.1% of the variation is explained by other factors that were not incorporated into the regression model. These factors may include broader macroeconomic conditions, government policies, household purchasing power, developments in the construction sector, banking conditions, investor expectations, and other market-specific variables that were beyond the scope of this study. Therefore, although the regression model demonstrates satisfactory explanatory power, property industry performance is also influenced by additional determinants outside the variables examined in this research.

In addition, the Adjusted R^2 value of 0.577 indicates that, after accounting for the number of explanatory variables included in the model, approximately 57.7% of the variation in property industry performance remains explainable by inflation and interest rates. The relatively small difference between the R^2 and Adjusted R^2 values suggests that the regression model is reasonably stable and that the inclusion of the two independent variables contributes meaningfully to explaining the dependent variable without substantially reducing the model's explanatory efficiency.

Overall, the coefficient of determination confirms that the proposed regression model has good explanatory capability. Although additional variables could further improve the model, inflation and interest rates already account for more than half of the observed variation in property industry performance, indicating that both macroeconomic variables play an important role in explaining the dynamics of Indonesia's property sector during the study period.

DISCUSSION

The Effect of Inflation on Property Industry Performance

The empirical results demonstrate that inflation has a positive and statistically significant effect on property industry performance in Indonesia. The regression coefficient indicates that increases in inflation are associated with improvements in property industry performance, suggesting that inflation contributes to movements in the Residential Property Price Index during the observation period. These findings imply that changes in the general price level are accompanied by corresponding adjustments in the property market rather than an immediate contraction of sectoral performance.

This finding can be explained by the characteristics of the property market, where real estate is commonly perceived as a tangible asset capable of preserving value during periods of rising prices. As inflation increases, construction costs—including building materials, labor, and land acquisition—also tend to rise. These higher production costs are reflected in higher selling prices of residential and commercial properties, resulting in an upward movement of the property price index. Consequently, the measured performance of the property industry may continue to improve despite inflationary pressures.

From a theoretical perspective, the findings are consistent with the concept of cost-push inflation, which explains that rising production costs encourage firms to increase product prices in order to maintain profitability. Within the property sector, developers generally transfer increases in construction costs to selling prices because housing projects require substantial capital investment and relatively long development periods. As a result, inflation is reflected not only in higher production expenses but also in increasing property values.

The results are also compatible with the Fisher Effect, which suggests that inflation influences nominal returns on investment assets. Property is frequently regarded as a long-term investment instrument capable of protecting wealth against inflation. During periods of moderate inflation, investors often increase their allocation to real estate because property values generally appreciate over time. This behavior may contribute to sustained demand for property and support overall industry performance.

The present findings are consistent with previous empirical studies reporting a positive association between inflation and property market performance. Rahmawati and Prasetyo (2021) concluded that inflation contributes to residential property price growth in Indonesia, while Lestari and Hidayat (2022) found that inflation affects the property sector differently across time horizons. Their findings indicate that moderate inflation may support market appreciation, whereas excessive inflation may weaken purchasing power and reduce transaction activity. Likewise, Santoso (2021) emphasized that maintaining inflation within a stable range is essential for sustaining long-term growth in the property market.

Although inflation shows a positive relationship with property industry performance, this result should be interpreted cautiously. The positive coefficient observed in this study does not necessarily imply that continuously increasing inflation will always improve property market performance. Instead, the findings indicate that, during the observation period, increases in inflation coincided with higher property price performance. Excessively high inflation may still reduce household purchasing power, increase financing costs, and eventually suppress demand for residential and commercial properties. Therefore, maintaining inflation within a manageable range remains essential for supporting sustainable development of Indonesia's property industry.

The Effect of Interest Rates on Property Industry Performance

The results of this study indicate that the Bank Indonesia policy interest rate has a positive and statistically significant effect on property industry performance. Among the two independent variables included in the regression model, the interest rate demonstrates the largest standardized regression coefficient ($\text{Beta} = 0.527$), indicating that it provides the strongest contribution in explaining variations in property industry performance during the observation period. These findings suggest that changes in monetary policy, as reflected in the BI Rate, are closely associated with developments in Indonesia's property market.

The positive relationship identified in this study indicates that increases in the BI Rate were accompanied by improvements in the property industry performance indicator used in this research. This finding may appear different from the conventional expectation that higher interest rates suppress property demand by increasing borrowing costs. However, the results should be interpreted within the context of the observed data. During the study period, increases in interest rates occurred alongside broader macroeconomic adjustments, including economic recovery, strengthening investment activity, and continued growth in property prices. Consequently, the empirical relationship captured by the regression model reflects the overall movement of these variables rather than a simple cause-and-effect relationship between higher borrowing costs and weaker property demand.

From a theoretical perspective, the findings can be interpreted using the loanable funds theory, which explains that interest rates represent the equilibrium between the supply and demand for funds in financial markets. Changes in interest rates influence investment decisions because they affect the cost of obtaining external financing. In the property sector, financing plays a crucial role in supporting land acquisition, construction activities, and mortgage lending. Therefore, movements in the BI Rate are naturally associated with changes in property market performance.

The findings can also be viewed through the perspective of interest rate theory, which suggests that changes in policy rates influence investment behaviour and capital allocation. Although higher interest rates generally increase borrowing costs, they may also encourage investors to shift their portfolios toward assets that are perceived to have relatively stable long-term values. Property is frequently considered one of these assets because its value tends to appreciate over time and is less vulnerable to short-term financial market fluctuations. This investment behaviour may partially explain why the regression results reveal a positive association between interest rates and property industry performance during the observation period.

The present findings are generally consistent with previous empirical studies that emphasize the important role of interest rates in shaping property market dynamics. Prasetyo and Lestari (2021) reported that higher interest rates influence housing demand, particularly among consumers who rely on mortgage financing. Likewise, Wibowo and Santoso (2022) argued that changes in interest rates affect investment decisions within the commercial property market, while Rahmawati and Hidayat (2021) found that the response to interest rate changes differs across market segments, with premium property markets tending to be less sensitive than middle-income housing markets. These studies collectively indicate that the influence of interest rates on the property industry is not uniform but depends on market structure, financing patterns, and investor characteristics.

The stronger standardized coefficient of the interest rate variable compared with inflation also provides an important implication. Within the estimated regression model, monetary policy appears to have a greater contribution than changes in the general price level in explaining variations in property industry performance. This suggests that financing conditions remain one of the primary considerations affecting the property sector. Consequently, policy decisions concerning the BI Rate may have broader implications for property developers, financial institutions, and investors when responding to changing macroeconomic conditions.

Nevertheless, the positive relationship identified in this study should not be interpreted as evidence that continuously increasing interest rates will always improve property industry performance. Instead, the results indicate that, during the study period, movements in the BI Rate were positively associated with the performance indicator employed in this research. The response of the property market is influenced by various economic factors occurring simultaneously, including inflation, income growth, government policy, and investor expectations. Therefore, changes in interest rates should be understood within the broader macroeconomic environment rather than as an isolated determinant of property market performance.

The Simultaneous Effect of Inflation and Interest Rates on Property Industry Performance

The findings of this study demonstrate that inflation and interest rates simultaneously have a significant effect on property industry performance in Indonesia. The significance of the regression model indicates that the two macroeconomic variables collectively explain variations in property industry performance during the observation period. This finding suggests that developments in the property sector are influenced by the interaction of macroeconomic conditions rather than by a single economic indicator.

The property industry operates within a complex economic environment in which inflation and interest rates influence both the supply and demand sides of the market. Inflation affects the cost of land acquisition, construction materials, labor, and other development inputs, while interest rates determine the cost of financing for property developers and mortgage borrowers. Consequently, changes in these variables simultaneously shape investment decisions, property prices, and overall market activity. The combined influence identified in this study indicates that macroeconomic stability plays a fundamental role in supporting the sustainable performance of the property industry.

From a theoretical perspective, the findings are consistent with the Monetary Theory of Inflation, which explains that changes in the money supply and general price levels influence asset prices, including property values. Rising inflation increases construction costs and selling prices, while monetary authorities typically respond by adjusting policy interest rates to maintain macroeconomic stability. As a result, inflation and interest rates are interconnected economic variables whose combined movements influence investment behaviour and property market dynamics.

The results are also supported by the **Loanable Funds Theory**, which explains that interest rates influence the allocation of financial resources within the economy. Property development requires substantial capital investment and long-term financing; therefore, changes in borrowing costs directly affect developers' investment decisions and consumers' purchasing capacity. When considered together with inflation, the availability and cost of financial resources become important determinants of property market performance. The significant simultaneous effect identified in this study confirms that these variables should be evaluated as complementary macroeconomic indicators rather than independent determinants of industry performance.

The findings are consistent with previous empirical studies that emphasize the combined role of inflation and interest rates in influencing the property sector. Suryani and Prasetyo (2021) reported that rising inflation increases property prices more rapidly than household income, thereby reducing market affordability. Similarly, Wicaksono and Lestari (2022) found that higher interest rates increase financing costs for developers and slow new property development. Rahmawati and Santoso (2021) further demonstrated that the property market responds differently depending on the interaction between inflation and interest rates. When inflation rises while interest rates remain relatively stable, demand for property may continue to increase. Conversely,

simultaneous increases in both variables tend to reduce purchasing power and weaken market demand.

The coefficient of determination further strengthens these findings. The regression model explains 59.9% of the variation in property industry performance, indicating that inflation and interest rates together possess substantial explanatory power. Nevertheless, 40.1% of the variation remains unexplained by the model, suggesting that additional factors also contribute to property market performance. These factors may include government housing policies, economic growth, household income, exchange rate movements, banking sector conditions, investor confidence, and demographic changes, which were not incorporated into the present study.

From a practical perspective, the findings highlight the importance of maintaining macroeconomic stability to support sustainable growth in Indonesia's property industry. For policymakers, controlling inflation while implementing appropriate monetary policies can help create a favourable investment climate and maintain market confidence. For property developers, understanding macroeconomic trends is essential for planning investment strategies, pricing decisions, and financing structures. Meanwhile, investors should evaluate inflation and interest rate movements simultaneously when assessing opportunities and risks in the property sector. Therefore, maintaining a balanced macroeconomic environment is expected to support the long-term resilience and competitiveness of Indonesia's property industry.

CONCLUSIONS AND RECOMMENDATIONS

This study examined the effects of inflation and interest rates on property industry performance in Indonesia using multiple linear regression analysis based on secondary data. The empirical results demonstrate that both inflation and the Bank Indonesia policy interest rate individually have a positive and statistically significant effect on property industry performance. Furthermore, the simultaneous analysis confirms that these two macroeconomic variables jointly influence the performance of Indonesia's property industry, with the interest rate exhibiting a relatively stronger contribution than inflation. The coefficient of determination indicates that inflation and interest rates explain 59.9% of the variation in property industry performance, while the remaining variation is attributable to other factors beyond the scope of this study. These findings highlight the importance of maintaining macroeconomic stability in supporting sustainable growth within the property sector. The study contributes to the existing literature by providing empirical evidence on the combined influence of inflation and interest rates on property industry performance in Indonesia and offers practical implications for policymakers, property developers, investors, and financial institutions in formulating strategies under changing macroeconomic conditions. Nevertheless, this study is limited to two macroeconomic variables and a single indicator of property industry performance. Future research is therefore recommended to incorporate additional variables, such as economic growth, exchange rates, household income, government housing policies, banking sector development, or consumer

confidence, as well as alternative analytical approaches to obtain a more comprehensive understanding of the determinants of property industry performance.

ADVANCED RESEARCH

Future research is encouraged to expand the analytical framework by incorporating additional macroeconomic and industry-specific variables, such as gross domestic product (GDP) growth, exchange rates, household income, housing demand, construction costs, and consumer confidence. The use of panel data or time-series econometric approaches, including Vector Autoregression (VAR), Autoregressive Distributed Lag (ARDL), or Structural Equation Modeling (SEM), may provide a more comprehensive understanding of the dynamic relationships between macroeconomic conditions and property industry performance. Furthermore, comparative studies across regions or property market segments, including residential, commercial, and industrial properties, would provide deeper insights into how different market characteristics respond to changes in inflation and monetary policy. Such research would contribute to a broader understanding of the determinants of sustainable property industry development in emerging economies.

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