



RRJ Pilot Research Report

# Karet Karet Karet

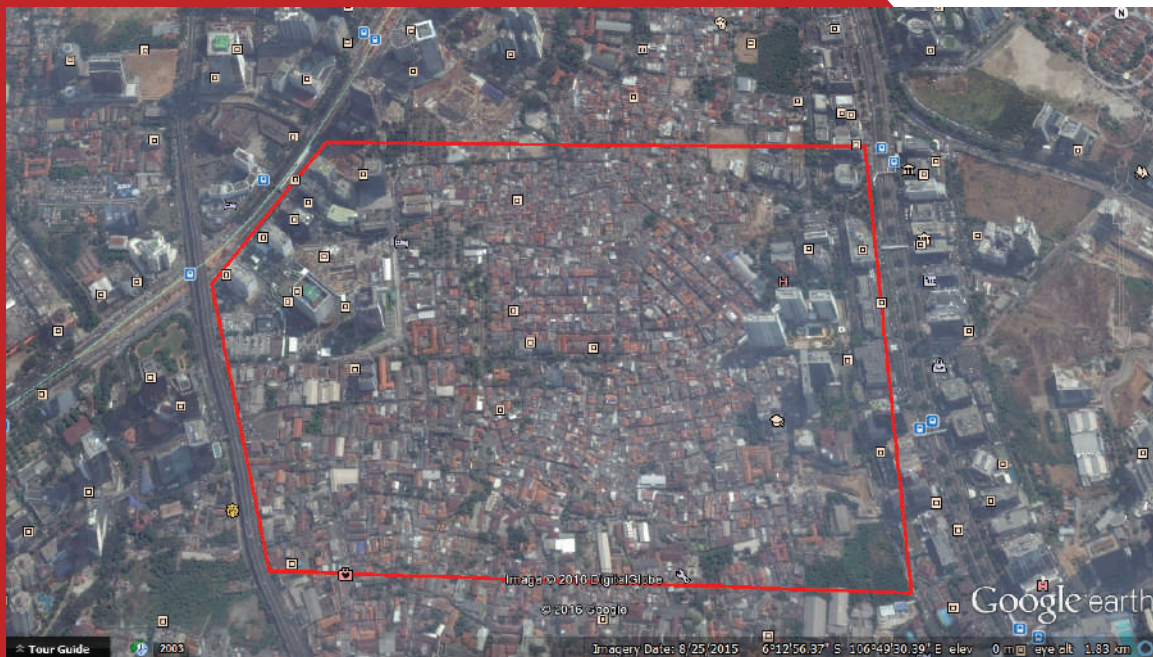
Rent, and Social Mobility  
in a Developing Megacity



## **RRJ Research Report\* : Karet: Rent, and Social Mobility in a Developing Megacity**

When one thinks of a city, typically the first thing which comes to mind is buildings. From modern glass towers to traditional structures built by hand, finding shelter is among the most important concerns for us all. Access to property is a fundamental component of an individual's social and economic life in cities.

In Jakarta, the world's largest developing city, the issue of place often defines our urban experience. With public transport and infrastructures already stretched to capacity, easy access to centres of economic activity is more important than ever. Our second research study focuses on the demand and availability of property and living space in the Karet neighbourhood, and what this means for the city as a whole.



*Karet study site from google maps*

The Karet area is defined by several large residential complexes, and a much larger number of small, informal rental spaces or 'kos.' Karet kos are extremely popular, with some tenants choosing to stay for several years at a time. Many we identified were urban professionals from nearby Sudirman and Kuningan corridors, taking the option of affordable accommodation close to their office, but there were also large numbers of construction workers, informal traders and even government employees in residence. This reveals an interesting feature of the informal property market which we will explore in more detail below.

Our field research in Karet over several weeks in 2016 and 2017 examined the pricing and services of informal renters and compared these with the options offered by formal, regulated properties nearby. In each case we examined the options for one-bedroom renters. The key issues are price and flexibility, which in turn determine access to central residences in this massive city.

The average monthly cost for informal rental accommodation was **IDR 1.950.000** per month, covering a wide range of facilities (communal/private bathrooms, electricity, security and wifi), compared to a monthly average of IDR 13.100.000 for renting an apartment in the formal economy. In addition, a majority of formal rental options required a deposit of 1-3 months, and a minimum rental period of 6 months - 1 year, in some cases even a full payment in advance.

**The availability of low-cost accommodation in central locations was a vital component of urban living for our interviewees, made possible by a number of structural and strategic differences between the formal and informal property markets.**

- Because formal properties require massive investment and are sold as finished pieces, the objective is to convert minimal space into maximum profit, making these options rigid in price and service. Similarly, professional property developers typically require a fast return on these investments in order to fund new developments elsewhere. Minimum rental periods and large deposits are common.

- Lower immediate investments required to operate a kos allows the owner to be more flexible, using a long-term business strategy of sustainable profits over time. This means they are able to be more sensitive to the needs of the city, adjusting prices and facilities to reflect the actual demand rather than imposing a 'supply model' property marketplace in which prices are pegged to acceptable levels of short-term profit.

- Informal kos operators typically live within or close to their properties, giving them a far deeper understanding of the local economic and social conditions dictating their price and service requirements. They are also able to develop personal relationships with their tenants, improving the renting experience in a number of ways which we will discuss below.

- Despite a large initial investment, formal properties tend to be rigid in form and function compared to their informal counterparts. Provided a certain level of security, informal properties are able to slowly develop over time, growing with the city.

- Because their businesses are directed towards sustainable income rather than profit maximisation, informal landlords can accept shorter rental periods, delayed payments and other irregularities which are typically unacceptable for property developers. The full significance of this will be explored in more detail in the next section.



Everyone can appreciate the benefits of lower rental prices, provided extra disposable income for all kinds of uses, but the significance of an informal-rent economy for the entire city may be less clear.

While the real estate market is an important component of urban economics across the world, in the context of a developing city like Jakarta it is important to make a distinction between the priorities of private developers and the needs of citizens. As discussed, profit maximisation drives the business strategies of real estate development, but is this also an important concern for the urban population? Certainly, a growing middle class requires access to modern, higher quality housing, but differences in relative income across the city and the nation lead to a serious risk of exclusion in an unregulated private market.

While the significance of central locations to the kampung economy are a central theme of our research, it also is important to consider what access to the city means for new arrivals from all income groups.

Compounded by long minimum-rent periods, payments in advance and security deposits, the high prices charged by developers often exclude new graduates who may not yet have access to adequate finances. Those seeking work in Jakarta from other parts of the country may also be unable to risk such a large investment in rental property, particularly given the other costs associated with relocating and the chance that they may not have secured guaranteed employment when they arrive. Clearly this is important for the individuals concerned,

# What does this mean for Jakarta ?

who may feel that they have wasted investment in education or training only to be excluded from the urban economy, but is equally significant for larger businesses. Talent, training and innovation are crucial for a developing economy,

and access to the city is vital to ensure that the economy can benefit from the best the country has to offer.

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Similarly, informal flexibility has a direct impact on the development of Jakarta. Our research found large numbers of construction workers renting accommodation in Karet, often arranged by their employer in partnership with a local kos. The flexible kos business model allows them to smoothly take advantage of this opportunity, offering dorm-style room sharing minutes from a construction site. In this way the informal rental economy helps reduce the time and cost of major infrastructure and construction projects, preventing the need to transport thousands of workers from distant locations or occupy already crowded urban spaces with temporary worker villages.

Certainly, the facilities and quality of informal rented spaces do not compare to those in the formal economy, and require improvement, however the insecurity and threat of eviction for informal landlords actually de-incentivises reinvestment and improvements. Instead, such landlords wisely choose to save their money to start again or survive hard times following a forced relocation.

Even those who never engage directly with the informal rent economy can benefit from its central proximity. On the most basic level, the negative price pressure associated with lower-cost options nearby helps to keep prices in the formal renting economy as low as possible, ensuring healthy competition and preventing monopoly by profit-seeking development projects.

Just as important, however, is the capacity for the informal sector to act as a safety net for those experiencing periods of financial difficulty. If a person was to lose their job, experience a debilitating accident or some other unexpected cost, perhaps losing their car or suffering a serious medical problem in the family, the high rent of formal apartments in central locations would present a serious challenge to their financial security. While a typical salary might only cover one or two months' rent in such accommodation, it would probably facilitate a much longer stay in a kamar kos at the same location. This could be the crucial factor in allowing someone to recover financially, keep a centrally located job or find a new one, or even supporting their family through a period of crisis.

**The full depth and significance of this relationship will be explored in our next research report, but it is clear that a diverse urban fabric, in which informal renters can compete effectively with the formal sector, provides a number of benefits to Jakarta's equally diverse citizens. Indeed, we must ask ourselves: who really needs to rent, not buy, spaces in central Jakarta, and why?**

We are always looking for contributions to our research agenda and data sets, so if you would like to get involved by examining the formal and informal food networks in your area of work or residence please contact us.