As of 1H 2015, there was a total of 18,933 units of strata-title apartments in Surabaya. We are expecting to see an additional 29,148 units enter the market during 2H 2015 – 2018, largely located in West and East Surabaya. The average take-up rate was recorded at 80.9%, 1.9% less than the previous period, while the overall asking price increased slightly by 2% HoH to IDR18.3 million/sq m.”

Ferry Salanto | Associate Director - Research

Apartment Sector

Apartment for Strata-title

Supply

As the second largest city in Indonesia, Surabaya offers a great opportunity for the property market, due to its large population, diverse economy and higher economic growth than Jakarta and the nation in general. With a relatively large amount of vacant land in Surabaya, many local developers secure their own land banks through land acquisition or joint venture, for future development, such as mixed-use projects, apartment towers or housing complexes in order to earn substantial profits, thus helping make real estate development one of the hottest sectors.

For the abovementioned reasons, developers continued to introduce new projects targeting various market segments during 1H 2015. Four apartment projects were introduced and launched in Surabaya, adding approximately 1,990 units to the market. Galaxy Residences (Elitz Tower), Sky Diamond (Tower A) and 88 Avenue (The Residences) are brand new developments, while Grand Sungkono Lagoon (Caspian Tower) is the second tower of Grand Sungkono Lagoon Superblock, which was developed by state-owned construction firm, PT Pembangunan Perumahan.

The Galaxy Residences (Elitz Tower) is part of the One Galaxy Superblock project, which consists of office tower, hotel, mall and apartments. The apartments are targeted at end users, especially new families from surrounding housing complexes, such as Kertajaya Indah and Galaxy Bumi Permai, thus they offer bigger units with from two bedrooms to five bedrooms. Sky Diamond (Tower A), which offers only studio and one-bedroom units, is targeted at the middle-lower segment. In the western part of Surabaya, Grand Sungkono Lagoon continues development by launching their second apartment tower (Caspian Tower), which offers better building specifications and facilities, thus making the price higher than the first tower (Venetian Tower). Furthermore, 88 Avenue will be built on 3.4 hectares on a part of the land with octagonal shape in Darmo, and is a mixed-use project – apartments, SOHO (Small Office Home Office), office tower, serviced apartments and a lifestyle mall. It is scheduled to be completed in 2018 or in 1H 2019. The octagonal shape area is 45 ha of land located in West Surabaya, Raya Darmo and belongs to three big developers, PT Intiland Development, TBK, PT Darmo Satellite and PT Darmo Permai.

| Economic Growth of Jakarta, Surabaya and Indonesia |
|--------|--------|--------|--------|--------|
| AREA   | 2009   | 2010   | 2011   | 2012   | 2013   |
| Jakarta| 5.01%  | 6.3%   | 6.62%  | 6.49%  | 6.16%  |
| Surabaya| 5.53% | 7.09%  | 7.56%  | 7.62%  | 7.34%  |
| Indonesia| 4.6%  | 6.2%   | 6.5%   | 6.3%   | 5.8%   |

Source: Statistics Indonesia and World Bank
**Apartment Projects Newly Introduced / Launched During 1H 2015**

<table>
<thead>
<tr>
<th>NAME OF DEVELOPMENT</th>
<th>LOCATION</th>
<th>REGION</th>
<th>EXPECTED COMPLETION TIME</th>
<th>ASKING PRICE/SQ M*</th>
<th>NO. OF UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Galaxy Residences (Elitz Tower)</td>
<td>Jl. Dharmahusada Indah Timur</td>
<td>East Surabaya</td>
<td>2018</td>
<td>IDR 29,750,000</td>
<td>426</td>
</tr>
<tr>
<td>Sky Diamond (Tower A)</td>
<td>Jl. Outer East Ring Road</td>
<td>East Surabaya</td>
<td>2018</td>
<td>IDR 13,500,000</td>
<td>435</td>
</tr>
<tr>
<td>Grand Sungkono Lagoon (Caspian Tower)</td>
<td>Jl. Abdul Wahab Siamin</td>
<td>West Surabaya</td>
<td>2018</td>
<td>IDR 22,500,000</td>
<td>529</td>
</tr>
<tr>
<td>88 Avenue (The Residences)</td>
<td>Jl. Raya Dharma Permai III</td>
<td>West Surabaya</td>
<td>2018</td>
<td>IDR 17,000,000</td>
<td>600</td>
</tr>
</tbody>
</table>

Notes:
*Price excludes 10% VAT
Source: Colliers International Indonesia - Research

**New Project Completion**

The completion of two apartment projects in 1H 2015 added 780 units of new supply to the market and brought the cumulative supply of strata-title apartments in Surabaya to 18,933 units. Two new strata-title apartment projects are The Papilio Tamansari and Pavilion Permata (Tower I). Overall, these two projects are targeted at investors who seek recurring income from rent since those apartments are situated near the business centre such as office buildings.

**Apartment Projects Completed in 1H 2015**

<table>
<thead>
<tr>
<th>NAME OF DEVELOPMENT</th>
<th>LOCATION</th>
<th>REGION</th>
<th>DEVELOPER</th>
<th>NO. OF UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>De Papilio Tamansari</td>
<td>Jl. Ahmad Yani</td>
<td>South Surabaya</td>
<td>Wika Realty</td>
<td>446</td>
</tr>
<tr>
<td>Pavilion Permata (Tower I)</td>
<td>Jl. Abdul Wahab Siamin</td>
<td>West Surabaya</td>
<td>PT. Pembangunan Perumahan</td>
<td>334</td>
</tr>
</tbody>
</table>

Source: Colliers International Indonesia - Research

**Demand**

Overall, apartment sales performance for both existing/operating and under-construction projects in Surabaya softened during 1H 2015 as indicated by the take-up rate declining to 80.9%, down from 82.8% in the previous period. The under-construction projects in particular, experienced a declining sales rate in this period, dropping by 1.5% to 71.6%. The performance of existing projects has been relatively unchanged since the previous period. The sluggish performance of under-construction projects was mainly due to the slowdown in the economy, which eroded public purchasing power. In addition, the depreciation of the rupiah has also contributed to the current negative sentiment of potential buyers and investors.
Asking Price

The sluggish market performance has resulted in a slower increase in asking prices during 1H 2015. The average price of strata-title apartments in Surabaya was IDR18.28 million / sq m, a slight increase of 2% over the previous period and a rise of 10.4% YoY.

Average Price of Strata-title Apartments in Surabaya

Source: Colliers International Indonesia - Research
As the main business area, Central Surabaya fetched the highest average asking price at IDR28.6 million / sq m; however, the price represents the lowest growth with a less than 1% increase over the previous period and only 2% YoY. The slow growth of apartment prices in Central Surabaya is likely because the current market price has reached an acceptable range, thus putting a drag on price increases. In a business area like Central Surabaya, only Gunawangsa Tidar offers all units at under IDR1 billion.

While other areas are experiencing stagnation, the overall East Surabaya market registered the highest price increase due to the addition of new projects that offer an initial price above the average market price, mainly because of the exclusivity of the project. Overall, the average price of apartments in East Surabaya was IDR14.17 million / sq m, an increase of 9.5% from the previous period and 19.2% YoY.

Asking Price of Strata-title Apartments Based on Area

Referring to the graph above, we see that apartment prices reached a plateau in the past year. The CBD in Surabaya saw a minor movement in prices as did other areas like West and South Surabaya. Only East Surabaya has the possibility for further adjustment to catch up the level of average price in the other regions, particularly because the number of infrastructure projects is growing in this area.

With a quite similar price range, West and East Surabaya are very competitive with each other. West Surabaya has been the main, modern, new residential and commercial area in Surabaya and so has East Surabaya, which was propelled by expansive development and transport infrastructure as well as reclamation to extend the development area. Since there are only two under-construction projects aimed at the same market segment, a price disparity in South Surabaya is virtually non-existent. The two under-construction projects in South Surabaya are The City Square and The Frontage.
Apartment For Lease

Supply

As of June 2015, the cumulative supply of apartments for lease in Surabaya increased by 30.8% over 2H 2014, bringing the total stock to 773 units. The additional supply came from Ascott Waterplace Surabaya, with a total of 182 serviced apartment units. This is the third property managed by Ascott in Surabaya, after Somerset Surabaya Hotel & Serviced Residence and Citadines Marvell Surabaya. The Ascott Waterplace Surabaya is the second Pakuwon property that is managed by The Ascott Limited after Somerset Berlian in Jakarta.

Strategically located within the Pakuwon Indah township development in West Surabaya, Ascott Waterplace Surabaya provides business travellers with one- to three-bedroom apartment units. Like the other upscale serviced apartments, each unit is fully furnished offering a fully-equipped kitchen, separate work and living areas, and modern amenities such as home entertainment system and wireless internet connectivity.

Serviced Apartments in Surabaya Managed by Ascott Limited

<table>
<thead>
<tr>
<th>NAME OF DEVELOPMENT</th>
<th>LOCATION</th>
<th>REGION</th>
<th>YEAR OF OPERATION</th>
<th>NO. OF UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somerset Surabaya Hotel &amp; Residence</td>
<td>Jl. Raya Kupang Indah</td>
<td>West Surabaya</td>
<td>2001</td>
<td>150</td>
</tr>
<tr>
<td>Ascott Waterplace Surabaya</td>
<td>Jl. Pakuwon Indah</td>
<td>West Surabaya</td>
<td>2015</td>
<td>182</td>
</tr>
<tr>
<td>Citadines Marvell Surabaya</td>
<td>Jl. Ngagel</td>
<td>Central Surabaya</td>
<td>2017</td>
<td>TBA</td>
</tr>
</tbody>
</table>

Source: Colliers International Indonesia - Research

Occupancy

During 1H 2015, the average occupancy rate of apartments for lease in Surabaya was decreasing. Overall, the average occupancy rate of apartments for lease in Surabaya was 63%, lower by 17% than the previous semester. Besides the newly operating Ascott Waterplace Surabaya which lowered the overall occupancy performance of apartments for lease, a lack of new inquiries from long-stay guests also contributed to the overall sluggish occupancy performance in Surabaya. Moreover, one of the operating serviced apartments in West Surabaya has made plans for major renovations and this has resulted in a significant decrease in the occupancy rate.

In addition to the competition among apartments for lease, the leasing market has to further compete with some (individually owned) strata-title apartment projects offered for lease, particularly in the West Surabaya area, where most serviced apartment projects are located. Some of the favourite apartment projects among expatriates in West Surabaya are Graha Family, Puri Matahari and Water Place Residence.

West Surabaya is favoured by foreigners because the area has the largest expatriate community compared to the other areas. It has wide variety of housing options, such as high-rise apartments, low-rise serviced apartments and gated homes. Some expatriates prefer individually owned apartments due to their competitive monthly rental rents and similar facilities to serviced apartments.
Rental Rates

While experiencing a decline in the occupancy rate, the rental rates of apartments for lease in Surabaya increased slightly, for both half-year and annual leases. As of 1H 2015, the average rental rate of apartments for lease in Surabaya was IDR210,018 / sq m / month, an increase of 8.2% YoY or 2.6% compared to 2H 2014. The minor increase that occurred during the reviewed period was due to the opening of Ascott Waterplace Surabaya, which quotes a rental rate slightly higher than the overall market rate.

The uniqueness of the apartments for lease market in Surabaya (which is not found in Jakarta) is that in several cases, rental rates are determined based on occupancy. There are some serviced apartments, particularly those that are part of a development integrated into a hotel, where the rental rate is based on the occupancy rate. The higher the occupancy rate, the higher the rental rate.

Average Asking Rental Rates of Apartments for Lease

Source: Colliers International Indonesia - Research
502 offices in 67 countries on 6 continents

United States: 140
Canada: 31
Latin America: 24
Asia: 39
ANZ: 160
EMEA: 108

$2.3 billion in annual revenue

158 million square meters managed

16,300 professionals and staff

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