

SURABAYA | APARTMENT

Apartment Sector

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In general, the apartment market in Surabaya remains subdued as reflected by relatively muted transactions both in the strata-title and apartments for lease markets. Potential buyers (mainly investor-type of buyers) remained cautious. There continued to be very little sales activity involving newly launched projects and projects still under construction. In addition, the sluggish sales activities in May-June were attributed to the increased spending of people in line with the new school year and Eid al-Fitr festivities, marking the end of the Ramadan.

On the other hand, as the global economy remains weak, multinational enterprises continue to reduce headcounts and tighten employee housing budgets due to the impact of the sluggish economy, together with the mushrooming of apartment-like hotels that offer longer-term stay packages and causing serviced apartments to perform poorly.

Forecast at a glance



Supply

The strata-title apartment stock increased by 1,224 units to a total of 28,887 units as of H1 2017. Furthermore, we expect a total of 33,414 new apartment units scheduled for completion in the next four years.



Demand

Overall, demand is likely to improve in the next half-year, as the macroeconomic situation improves in line with controlled inflation and expectations of rising commodity prices.



Price

The average apartment price is projected to pick up by more than 4% HOH, along with a better outlook for the property market in the second half-year of 2017.



Rent

Trends in asking rents point to stability, as multinational companies have kept their housing allowances low, causing a shift in leasing demand away from international-branded serviced apartments.

APARTMENT FOR STRATA-TITLE

Supply

The completion of three upper segment apartment projects in H1 2017, namely One East Residence, Pavilion Permata and La Riz (previously Ritz Mansion), added 1,224 units of new supply to the market and brought the cumulative supply of strata-title apartments in Surabaya to 28,887 units, an increase of 4.4% from the previous half-year.

One East Penthouse & Residences Collection is a pilot project by MNC Land in Surabaya. Situated in the upscale residence complex in Kertajaya Indah, the project claims to be 70% absorbed; most buyers are end-users who live in the surrounding area, followed by investors from Jakarta. From West Surabaya, Pavillion Permata (Tower 2), which is being developed by PT PP Property, has already been handed over to buyers. Benefitting from its location near the Satelite Darmo toll, the project claims to be 90% sold during its three-year construction period. On the other hand, Pakuwon claimed that their newly operating shopping mall (Pakuwon Mall) successfully attracted people to buy La Riz, leaving only 2% of the total units. The later evidence shows that the mixed-use concept is quite acceptable in this current softer market. However, we believe it must be followed by a proven track record of the developer and a clearer concept of development as well as the target market segment.

Furthermore, the small number of newly launched/introduced projects typically reflects the demand profile in the reviewed period. In the next three to four years, three apartment projects will be launched, adding approximately 2,120 units into the market. Moreover, the development pipeline from now up to 2021 will consist of 33,414 apartment units from 45 projects, where East and West Surabaya remain the favourite locations to develop apartment projects. However, under the current circumstances, we anticipate seeing a delay in the delivery schedule of some projects, particularly given the slow progress in construction.

Completed Apartment Projects During H1 2017

NAME OF DEVELOPMENT	LOCATION	REGION	DEVELOPER	NO. OF UNITS
One East Penthouse & Residences Collection	Jl. Raya Kertajaya Indah No. 79	East Surabaya	MNC Land	264
Pavilion Permata (Tower 2)	Jl. Abdul Wahab Siamin	West Surabaya	PT PP Property	507
La Riz (was Ritz Mansion)	Pakuwon Indah	West Surabaya	Pakuwon	453

Source: Colliers International Indonesia - Research

Newly Introduced/Launched in H1 2017

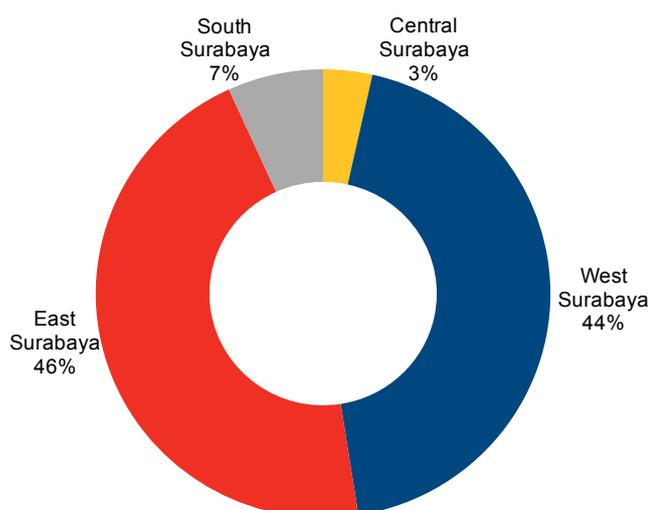
APARTMENT	LOCATION	REGION	NO. OF UNITS	EXPECTED COMPLETION TIME	ASKING PRICE/SQ M* (IDR MILLION)
Grand Shamaya Lagoon	Jl. Embong Sawo No.1	Central Surabaya	380	2021	28,200,000
The Arundaya	Jl. Kenjeran No.504	East Surabaya	1,130	2020	13,800,000
Tamansari Emerald Apartment	Jl. Emerald Mansion, Citraland	West Surabaya	610	2020	17,600,000

Notes:

*excludes 10% VAT

Source: Colliers International Indonesia - Research

The Location of Future Apartment Units During 2017 - 2021

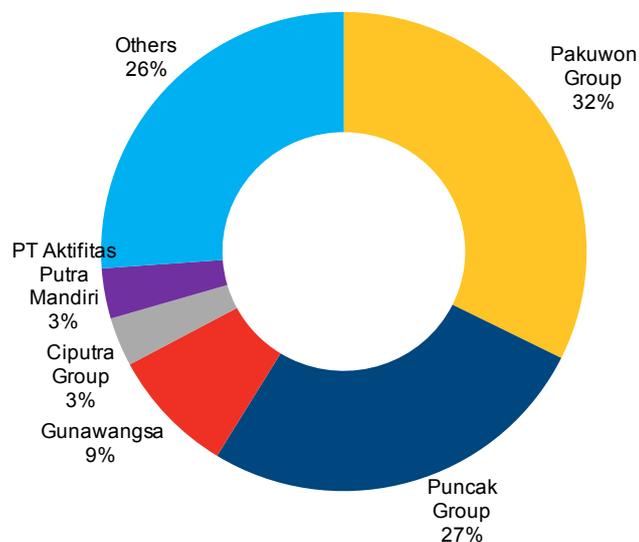


Source: Colliers International Indonesia - Research

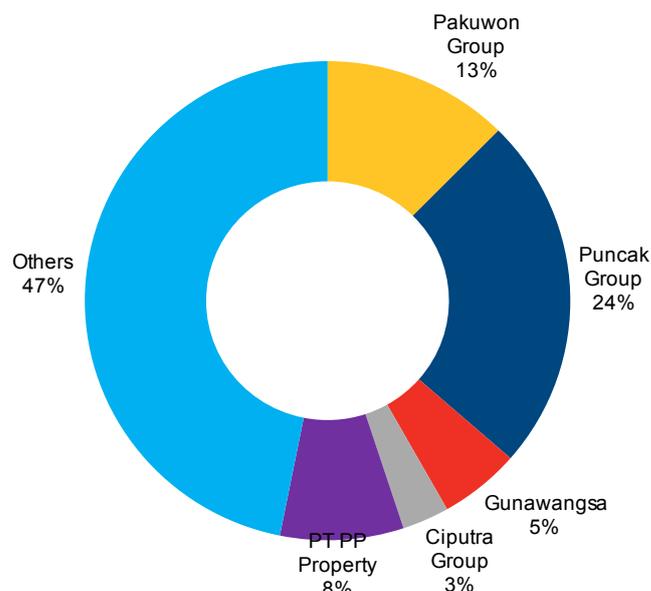
Pakuwon has dominated the total stock of apartment units by far with different target market segment projects, from middle to upper class, scattered in West, East and Central Surabaya. Meanwhile, Puncak Group, which focuses on the middle to low-market segment, stands as the second-most active developer with a contribution of 27% of the total stock in the H1 2017. Up to 2021, the composition of the most active developers is expected to change a little bit with a new player, PT PP Property, which will contribute about 8% of the total future supply. PT PP Property is currently working on three projects targeted at different market segments, including Grand Sungkono Lagoon, Grand Dharmahusada Lagoon and the newest, Grand Shamaya Lagoon. These are located in West, East and Central Surabaya, respectively.

Most Active Developers by Number of Units

AS PER H1 2017



DURING H2 2017 - 2021



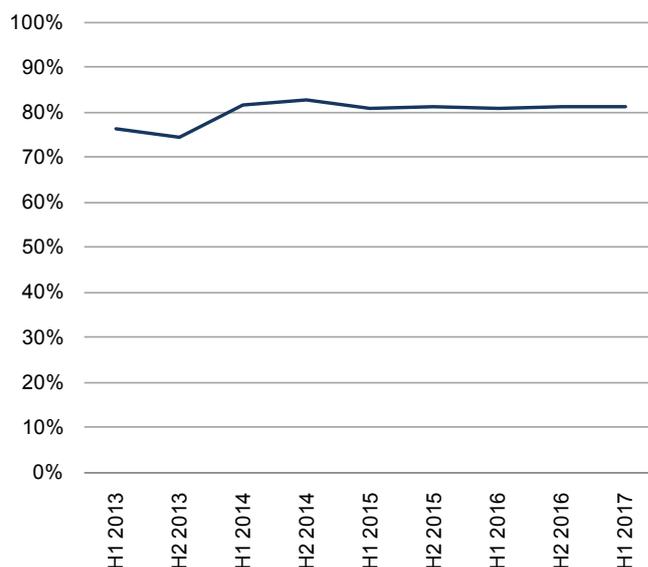
Source: Colliers International Indonesia - Research

Demand

In general, the apartment market in Surabaya did not change considerably compared to the previous half-year. Although the overall take-up rate moved up slightly from the previous period, by only 0.2%, such a condition is quite healthy during sluggish market conditions. The take-up rate increased modestly, as interested buyers concentrated largely on the affordability offered by smaller-sized units. Currently, the middle to lower segment projects ranging in price from IDR370 to 750 million for a 35 to 60-sq m two-bedroom studio are quite acceptable and easily absorbed. In addition, market sentiment appears to have improved following the developers' efforts to accommodate potential buyers with more flexible payment terms, including balloon payments and longer cash instalments (of up to 100 months).

Location-wise, South Surabaya recorded a significant increase in its take-up rate, particularly from projects still under construction, due to the limited number of new projects being offered and the relatively affordable prices. On the other hand, the underperformance of some previously launched projects together with the addition of recently launched projects during this period provide downward pressure to the overall take-up rate, albeit moderately, in East Surabaya and Central Surabaya.

Average Take-up Rate of Apartments in Surabaya



Source: Colliers International Indonesia - Research

Average Take-up Rates for Operating and Under-Construction Projects

	H1 2016	H2 2016	H1 2017	HoH	YoY
Existing projects	97.0%	97.6%	97.4%	-0.3%	0.4%
Under-construction projects	68.3%	67.2%	67.4%	0.2%	-0.9%

Source: Colliers International Indonesia - Research

Average Take-up Rates in Different Regions in Surabaya

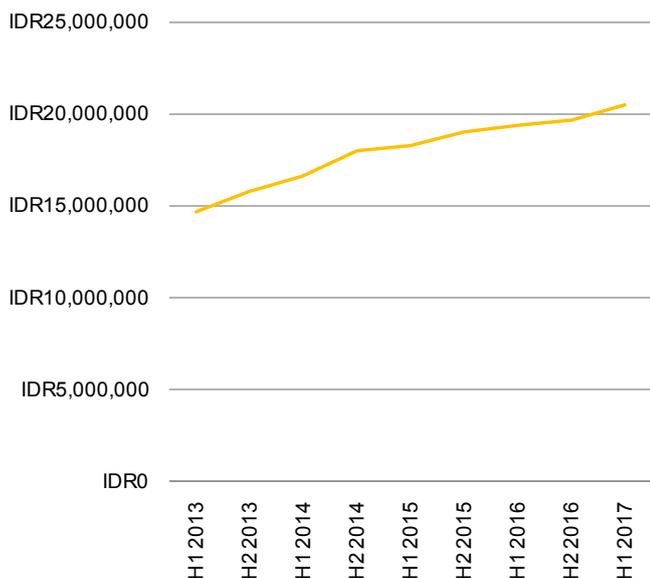
	H1 2016	H2 2016	H1 2017	HoH	YoY
West Surabaya	86.6%	88.0%	88.3%	0.3%	1.7%
East Surabaya	80.8%	80.1%	78.7%	-1.4%	-2.1%
South Surabaya	68.7%	70.6%	81.3%	10.7%	12.6%
Central Surabaya	63.7%	64.2%	63.0%	-1.2%	-0.7%

Source: Colliers International Indonesia - Research

Asking Price

The overall increment in asking prices is mainly driven by adjustments made by developers who performed positively and whose projects continue to progress in construction during the reviewed period. As at H1 2017, the average asking price of apartments in Surabaya increased by 4% compared to the prior period, or 5.3% YoY, to an average of IDR20.5 million/sq m.

Average Apartment Asking Prices/sq m in Different Regions in Surabaya



Source: Colliers International Indonesia - Research

Asking Prices (IDR / sq m) in Different Regions in Surabaya

	H1 2016	H2 2016	H1 2017	HoH	YoY
West Surabaya	20,489,526	20,688,296	21,746,819	5.1%	6.1%
East Surabaya	15,096,816	15,853,113	16,201,929	2.2%	7.3%
South Surabaya	17,840,790	17,458,480	18,025,147	3.2%	1.0%
Central Surabaya	29,537,109	28,351,203	29,123,333	2.7%	-1.4%

Source: Colliers International Indonesia - Research

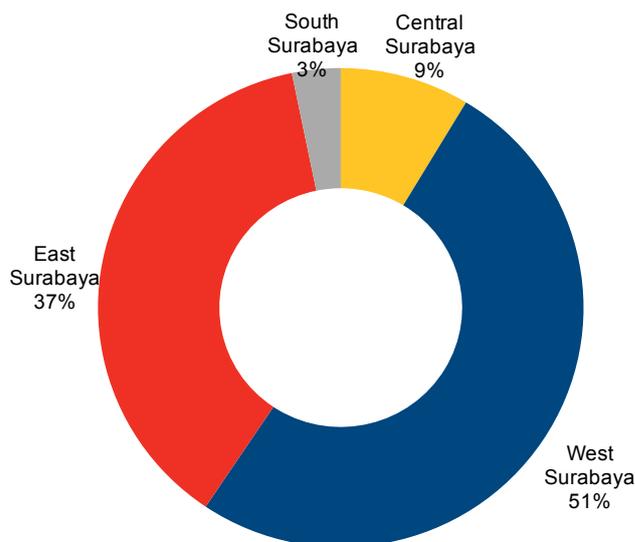
Going forward, apartment prices should gradually adjust in anticipation of better infrastructure development plans as well as future public transportation, due to worsening downtown traffic conditions. Furthermore, East and West Surabaya are still the most attractive markets as new projects are launched continuously, thus pushing prices to go up (either HOH or YOY).

APARTMENT FOR LEASE

Supply

There were no new projects launched in H1 2017. Citadines at Marvell City was originally scheduled to operate in the first half-year of 2017, but lately this was changed to Midtown Residence. Located in the Ngagel area near the Rungkut Industrial area, Midtown Residence had a soft opening in February 2017 and currently there are still a few units available, 60 of the 275 units planned. Midtown Residence targets travellers and the corporate market. On the other hand, another Ascott Group, Somerset, was no longer in Surabaya beginning in March 2017 and it changed to local management, namely Verwood Hotel and Residences. Furthermore, as at H1 2017, the total stock of apartments for lease in Surabaya increased by 42.4% from the previous half-year to 924 units. Going forward, an additional serviced apartment in the next half-year is expected from Oakwood Hotel & Residence Surabaya, which consists of 144 units, ranging from studios to two-bedroom type units.

Apartments for Lease Distribution in Surabaya as per H1 2017



Source: Colliers International Indonesia - Research

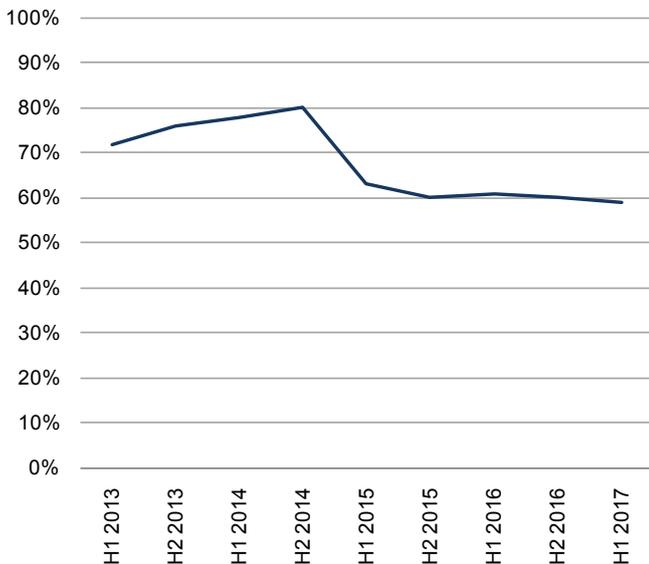
	TYPE OF UNIT	SIZE (SEMI GROSS) SQ M	#UNITS
Oakwood Hotel & Residence Surabaya	Studio A	55.95	36
	Studio B	58.45	18
	1 Bedroom A	108.85	18
	1 Bedroom B	107.29	36
	1 Bedroom C	101.57	18
	2 Bedroom	145.10	18

Source: MNC Land – Marketing & Communication

Occupancy

The rental market for apartments for lease in Surabaya is facing a plateau. The average occupancy rates of apartments for lease, which are mostly composed of serviced apartments, was recorded at 59%, a mild decrease of 0.8% compared to H2 2016. The average occupancy rates are likely to decline, due to the holy fasting month of Ramadan, as business activities slow down during this period. In addition, demand had gradually dwindled with the reduction in corporate accommodation budgets combined with the mushrooming of apartment-like hotels with longer-term stay packages and a wide variety of housing options including gated home complexes. As a result, enquiry levels have been flat as seen from the beginning of the year, and the market softening will likely continue over the next half-year.

Average Occupancy Rate of Apartment for Lease in Surabaya



Source: Colliers International Indonesia - Research

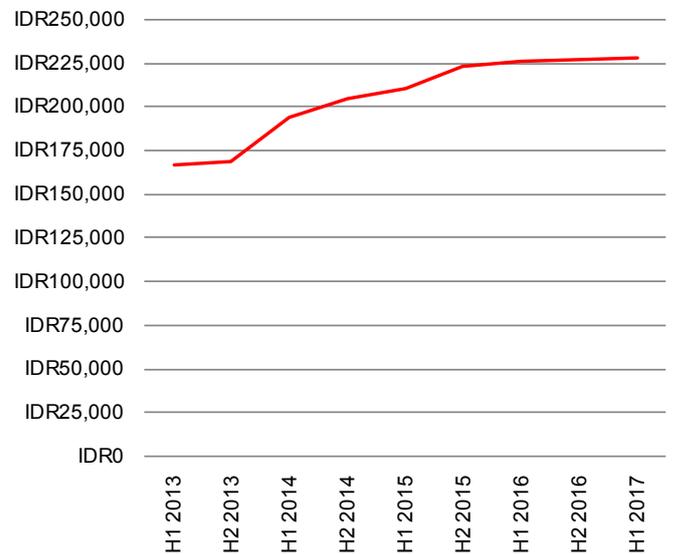
Overall, in this current situation, landlords will have to devise further plans to draw in tenants. Despite the lack of demand from short-staying (1-14 nights) expatriates that mostly come from individual business travellers, groups for workshops and weekend family holidays continue to be the main contributors to keep the overall occupancy rate stable. On the other hand, from a landlord's perspective, rent on a daily basis is more financially beneficial since it provides a higher income compared to monthly or yearly rents.

Rental Rate

Similar to what we predicted in the previous report (H2 2016), most serviced apartment operators are reluctant to raise rental rates due to softer demand. In fact, the average rental rate of apartments for lease was recorded at IDR227,509/sq m/month, increasing only marginally by just 0.4% HOH or 0.5% YOY.

Most serviced apartments are in a position to maintain their existing rates but are also offering various rental concessions to entice both individual and corporate tenants. The modest increment has occurred only in particular projects in West Surabaya, which performed very well, thus management remains confident to see an increase of 3% to 5% from the last half-year of 2016.

Rental Rate of Apartment for Lease in Surabaya



Source: Colliers International Indonesia - Research

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