

**Ferry Salanto** Senior Associate Director | Surabaya

More stock in the market has led to a buyer's market, which will likely cap property price appreciation. Demand has improved somewhat but remained patchy. We believe market sentiment could remain soft in 2018, as the market continues to digest a large quantity of unsold inventory. We expect the strongest demand to be in small units with relatively affordable pricing. This year, the bulk of new launches from developers will likely come from mid-low class apartments priced below IDR1.5 billion per unit. This typical unit type remains the most saleable product in this subdued apartment market.

## Forecast at a glance



### Demand

Market sentiment in Surabaya is yet to recover, particularly because of a large number of available units. By the end of 2018, the take-up rate may edge up modestly to 81-82%. A brisker outlook for 2019 and 2020 may allow the take-up rate to reach 84% and 85%, respectively.



### Supply

The total number of strata-title apartments will reach 36,523 units by 2021. From now to 2020, supply is scheduled to grow by 9,251 units per annum. About 46% of all new units are scheduled in the mid-low segment.



### Rent

In this competitive rental market, we see no room for rents to increase, particularly for local operators. We expect the average rent to increase by 1-2% per annum in 2019-2021.



### Price

Asking prices should post modest growth over the next two years, increasing by 5-6%, as buyers may still need some convincing for them to overcome their inertness.

# Apartment for Strata-title

## Supply

Following the completion of three projects in Surabaya that brought a total of 4,379 units online, there are now 34,998 apartment units in stock, reflecting a 14.3% increase HOH and 21.2% YOY. These three newly completed projects are predominantly in the middle-low class. Overall, the middle-low segment still dominates the apartment market in Surabaya, accounting for 53% of stock. We expect this domination to continue in the future.

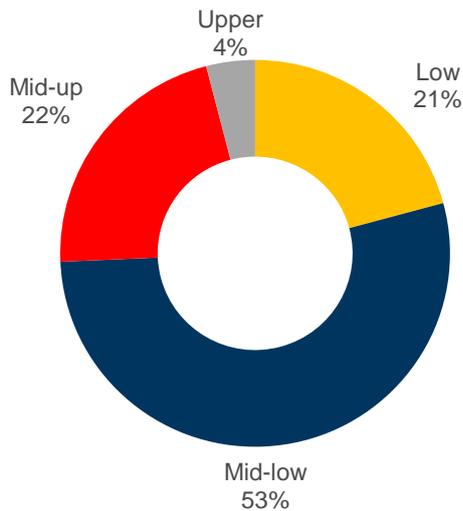
For the past three years, West Surabaya continues to be a popular location for apartment development, as shown by numerous units launching in the region, especially within the areas surrounding Jl. Darmo, Jl. Mayjen Sungkono and Jl. HR. Muhammad, and also within upscale housing compounds such as Graha Family, Citra Indah and Pakuwon Indah. With massive commercial developments and the upcoming West Outer Ring Road providing better access to industrial areas in Gresik, Tuban and Mojokerto, there will likely be a wider target market, from employees to expatriates. Furthermore, in contrast with Jakarta, which is very much on the radar of overseas developers, most developers in Surabaya are local players, such as Pakuwon, Intiland, Ciputra, Gunawangsa Group, Puncak Group and PT Pembangunan Property (PT.PP Property, Tbk).

## APARTMENT PROJECTS COMPLETED DURING H1 2018

DEVELOPMENT	LOCATION	REGION	DEVELOPER NAME	#UNITS
Puncak Dharmahusada (2 towers)	Jl. Ir. Soekarno	East Surabaya	Puncak Group	2,886
Praxis	Jl. Panglima Sudirman	Central Surabaya	Intiland	293
Gunawangsa Tidar (2 towers)	Jl. Raya Tidar	Central Surabaya	Gunawangsa Group	1,200

Source: Colliers International Indonesia - Research

### Market Segmentation of Existing Projects

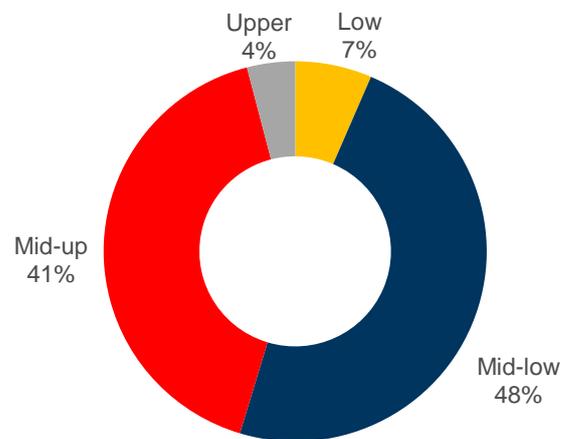


Source: Colliers International Indonesia - Research

Overall, the supply of apartment units in Surabaya still continues to grow. Despite being pressured by low sales activity, developers still have positive expectations for the market, which translates into a number of projects being introduced and launched.

The mixed-use development concept has been quite popular in Surabaya as land availability becomes scarce. The mixed-use concept typically combines commercial and residential functions offers a practical and simple style of living. As such, this concept might attract the millennial market, which prioritises living in vibrant areas that are close to their work and leisure amenities.

### Market Segmentation of Future Apartments



Source: Colliers International Indonesia - Research

## NEWLY INTRODUCED/LAUNCHED APARTMENTS IN H1 2018

APARTMENT	LOCATION	REGION	#UNITS	EXPECTED COMPLETION TIME	ASKING PRICE/SQ M*
The Trans Icon Apartment	Jl. Frontage Ahmad Yani	South Surabaya	1,100	2021	IDR23,000,000
Vertu Apartment	Jl. Mayjen Sungkono	West Surabaya	184	2021	IDR32,000,000
Westtown View	Jl. Raya Wiyung	West Surabaya	936	2021	IDR17,500,000
Darmo Hill Residence (Rosewood Tower)	Jl. Pakis Argosari	West Surabaya	341	2021	IDR25,000,000
Tierra Apartment (Star Tower)	Jl. Darmo Harapan	West Surabaya	638	2021	IDR16,000,000

\*Price excludes VAT

Source: Colliers International Indonesia - Research

## Demand

The general apartment market situation in Surabaya remains unchanged, compared to the previous period. The overall take-up rate declined slightly HOH by 1.4%, to 81%. Whilst some projects are performing well in sales, a number of newly launched projects added downward pressure to the overall take-up rate. Prominent developers such as Ciputra, Pakuwon and PT PP Property still appeal to consumers in Surabaya, for confidence in their overall reputation. In general, apartment products from reputable developers are relatively well-absorbed.

### Average Take-up Rate

	H1 2017	H2 2017	H1 2018	HOH	YOY
West Surabaya	88.3%	87.8%	86.8%	-1.0%	-1.4%
East Surabaya	78.7%	80.3%	79.1%	-1.2%	0.4%
South Surabaya	81.3%	83.0%	72.2%	-10.8%	-9.1%
Central Surabaya	63.0%	67.6%	72.6%	4.9%	9.6%

	H1 2017	H2 2017	H1 2018	HOH	YOY
Existing projects	97.4%	97.9%	94.7%	-3.2%	-2.7%
Under-construction projects	67.4%	68.6%	67.2%	-1.5%	-0.2%
Total	81.3%	82.3%	80.9%	-1.4%	-0.4%

Source: Colliers International Indonesia - Research

Ramadan and the new school year, which fell in May-June this year, marked the slow sales period particularly when people generally limit their spending for food, clothes and travel.

On the other hand, PT. PP Property Tbk recorded bulk sales worth IDR2.1 trillion for three apartment projects, which are Grand Shamaya Lagoon (Tower 2), Grand Dharmahusada Lagoon (Tower 2) and Grand Sungkono Lagoon (Tower 4). The sale was made to a third party, Arvaca Investama, a Middle East-based investor company, as strategic partner. Similarly, we expect other bulk sales transactions that are still in the pipeline, but have yet to be finalised. All in all, we did not see any direct impact to the overall take-up rate, as the three towers are still in the planning stages.

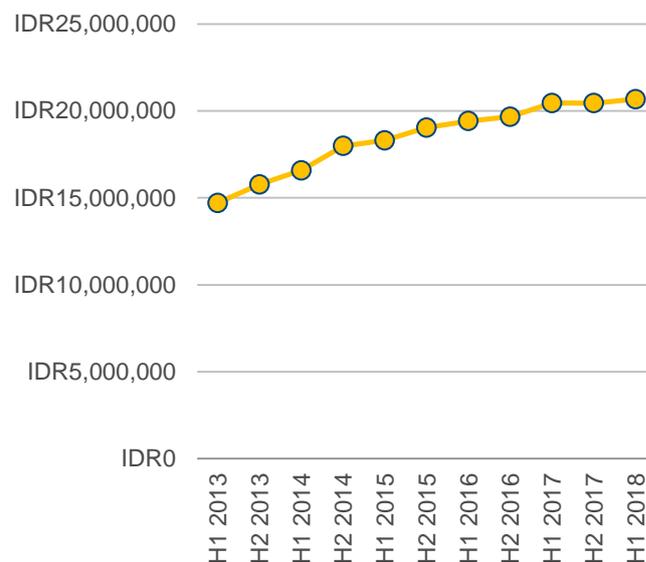
We expect market sentiment in Surabaya to remain soft in 2018, particularly in the high-interest rate environment,

which will likely restrain apartment demand as mortgages become costlier. In the period when demand for apartment is low, the priority of developers lies in sustaining their properties' sales momentum, which is increasingly being challenged by the currently tepid market. Therefore, attractive product offerings with strong value propositions, such as location, concept and a clear target market are critical to drive sales.

## Asking Price

The sluggish sales performance of apartments in Surabaya has resulted in a slower increase of apartment prices in H1 2018. The average price of strata-title apartments in Surabaya was IDR18.3 million/sq m, increasing by slightly less than 1% from the previous period (0.7% HOH and 2.3% YOY).

### The Average Price of Strata-title Apartment in Surabaya



Source: Colliers International Indonesia - Research

The highest average asking price of IDR28.6 million/sq m is found at Central Surabaya. However, it experienced the lowest price growth of 0.6% from the previous period and increased by a slight 2% from the previous year. The slow growth in apartment prices in Central Surabaya was likely because the current market price had reached the accepted psychological price range, thus putting a drag on price increases.

To stoke demand we have witnessed smaller units being offered with more accommodative payment schemes, such as very low or even 0% down payments, with a longer instalment period that could stretch to 100 months. Furthermore, with the number of unsold units in the market remaining high, developers will probably be

more focused on clearing their inventory, thus leading to a buyers' market.

### Asking Price (in IDR/SQ m) in Different Areas of Surabaya

Region	H1 2017	H2 2017	H1 2018	HOH	YOY
West Surabaya	20,868,577	21,398,894	21,511,756	0.5%	3.1%
East Surabaya	16,201,929	16,465,676	16,903,737	2.7%	4.3%
South Surabaya	18,025,147	18,025,147	18,742,800	4.0%	4.0%
Central Surabaya	29,123,333	29,550,900	29,631,000	0.3%	1.7%

Source: Colliers International Indonesia - Research

East and West Surabaya are still the most appealing locations as reflected in their continuing flow of newly launched projects, resulting in the increase in average prices. On the other hand, the increase in average prices in South Surabaya was due to the launch of Trans Icon Surabaya, which introduces a price higher than the overall market in the area.

For individual investors, on the ground feedback hints that they are still keen to commit, but are still concerned about the potential for capital gains and delivery time. Buyers may still need some convincing for them to overcome their inertness. Marketing strategies are becoming even more important because without a focused and sustained marketing effort, market activity falls back into a slumber. However, the rising cost of raw materials due to the strengthening US dollar against the rupiah is harder to pass on to buyers with the current slow demand. Consequently, developers may suffer from lower margins, as they find it challenging to pass through incremental cost pressure via higher prices. Also, as land is becoming more expensive over time, we think developers may have to rethink strategies tapping into the premium market segment, as it is not likely to fare well in the current market condition.

# Apartment for Lease

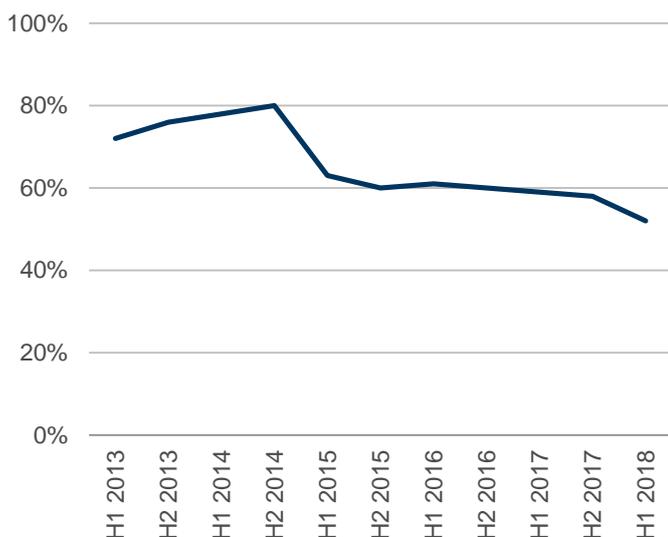
## Supply

As of H1 2018, the supply of apartments for lease has remained stable, mainly because there is no new supply in the market. The total stock of serviced apartments stayed at 691 units, with most of the units located in West Surabaya (77.3%), followed by Central Surabaya (22.7%). Furthermore, 144 additional serviced apartment units from Oakwood Hotel and Residence Surabaya are scheduled to be ready for operation in July 2018. The project, as planned, is the first serviced apartment project located in East Surabaya.

Central and West Surabaya have been known as premium locations where multinational companies and expatriates settle. Hence, these areas are still preferred locations for serviced apartments due to their neighbourhood profile, well-supported infrastructure and accessibility to the downtown and industrial areas such as Gresik, Tuban and Mojokerto.

## Occupancy

Despite having no additional supply, leasing activity was still weak as the occupancy rate of the city's rental apartment market decreased by 6% HOH and 7% YOY to 52% by the end of the first half of 2018. Besides the sluggish economy and lack of national-scale projects that could bring expatriates to Surabaya, demand for rental apartments has been pressured by the competition, both from privately owned strata-title apartments for rent and hotel rooms, which offer long-stay accommodation. In recent years, demand for long-stay occupation, particularly from expatriates, has increased alongside the presence of industrial estates located in East Java. Meanwhile, the hotel sector recorded weak performance, especially at four- to five-star hotels, over the same period. As a result, many of the hotel projects adjusted their operating strategy by converting portions of their units to serviced apartments to improve returns.



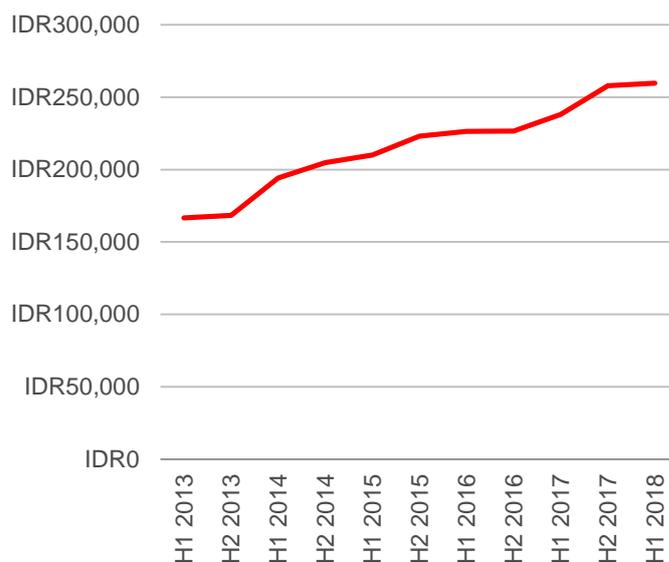
Source: Colliers International Indonesia - Research

Overall, in this environment with a combination of factors, such as slow influx of expatriates and increasing competition from individually owned strata-title apartments, landlords of apartments for lease require a clear marketing strategy to draw in tenants. Also, short-term tenants that mostly come from individual business travellers and family holidays during the weekend continue to help lift overall occupancy rate.

## Rental Rate

Overall, the serviced apartment market in Surabaya experienced a slight rental increase of 0.7% HOH and 9.2% YOY to IDR259,700/sq m/month. As demand is still slow and the fact that apartments for lease are competing head-to-head against individually owned strata-title apartments, rental rates should ebb.

Most operating serviced apartment projects choose to maintain their existing rates but are offering various rental concessions to entice prospective tenants, both for individual and corporate tenants. Currently, a typical one-bedroom serviced apartment in Surabaya is offered at around IDR22.2 million/unit/month, whilst two- and three-bedroom units are offered at around IDR24.6 million/unit/month and IDR29.3 million/unit/month, respectively.



Source: Colliers International Indonesia - Research

### For more information:

Ferry Salanto  
Senior Associate Director | Surabaya  
+62 21 3048 6730  
Ferry.Salanto@colliers.com

### Contributors:

Rizal Gobi  
Manager | Surabaya

Copyright © 2018 Colliers International.  
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.