

# SURABAYA | APARTMENT

## Apartment Sector

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Despite further pressure from tight competition amongst projects under construction, some developers still hold positive expectations toward the apartment market as reflected by the continuous launching of new projects. Furthermore, favourable government policies, including the new LTV rules that reduced down payment from 20% to 15%, will maintain demand amongst first home buyers in the long term. In addition, a lower interest rate environment, the gradual shift of people preferring high-rise living and the improving lifestyle of young families living in the city centre are expected to create more room for the apartment market industry to grow in the longer term. On the other hand, as buyers are currently more selective in spending their money particularly on apartment projects, the products that will thrive in the current market condition are those in strategic location, with a unique concept and offering flexible payment methods.

### Forecast at a glance



#### Supply

The strata-title apartment stock increased by 1,200 units, to a total of 27,663 units, as of H2 2016. On the other hand, middle to lower segment projects with 5,176 units were introduced and are scheduled to complete between 2019 and 2020.



#### Demand

The overall demand for apartments in Surabaya was relatively stable at 81.2%. Going ahead, demand is projected to improve next year, along with better economic projection as well as a number of regulations to boost the property market.



#### Price

As of H2 2016, apartment price in Surabaya edged up slightly by 1.3% HoH and 3.3% YoY. Also, along with a better outlook in the property market in 2017, the price is projected to pick up higher than the inflation rate, by 5-6% YoY.



#### Rent

The asking rental rate of apartments for lease was relatively stable throughout this semester. Furthermore, most apartments seem reluctant to raise rental rates in the coming year amid a softer demand.

## APARTMENT FOR STRATA-TITLE

### Supply

This semester witnessed 1,200 additional supplies coming from the completion of one project, Bale Hinggil, which is a lower segment apartment located near the Middle East Ring Road (MERR), East Surabaya. Including the other newly completed projects, the total existing supply of apartments in Surabaya has reached 27,663 units, which is an increase of 4.5% HoH and 17.3% YoY. The existing strata-title apartments in Surabaya are concentrated in East Surabaya, which accounts for 46% of the total stock, followed by West Surabaya (44%), South Surabaya (7%) and Central Surabaya (3%).

Given the positive expectations to the property market in 2017 as a number of recent regulations are likely to boost apartment sales, some developers are confident in introducing or launching new projects this semester. In fact, six new projects totalling to 5,176 units will enter the market in two to three years. Pakuwon has launched two new projects located in West and East Surabaya, namely Benson Tower and East Coast Mansion, respectively. A combination of shopping mall, residential and commercial functions characterises the concept proposed by these newly launched projects. Benson Tower is an extension of the first tower, Anderson Tower, and will be built above the Supermall Pakuwon Indah extension. With the same concept, East Coast Mansion (Tower Amor) will be built above the New East Coast Mall, which is connected to the existing mall. Meanwhile, Atrium Residence and East CBD are the brand new projects, whilst Gunawangsa Tidar (Tower C) and BeSS Mansion (Premier Tower) are extensions of existing towers that claim to achieve a good take-up rate. Except Gunawangsa Tidar (Tower C), these three middle-lower segmented projects have not been officially launched, but have already opened for booking number or NUP.

## Completed Apartment Projects During H2 2016

NAME OF DEVELOPMENT	LOCATION	REGION	DEVELOPER	NO. OF UNITS
Bale Hinggil (Tower A)	Jl. Ir. Soekarno	East Surabaya	PT Tlatah Gema Anugrah	1,200
Total				1,200

Source: Colliers International Indonesia - Research

## Newly Introduced/Launched in H1 2016

APARTMENT	LOCATION	REGION	NO. OF UNITS	EXPECTED COMPLETION TIME	ASKING PRICE/SQ M* (IDR MILLION)
Gunawangsa Tidar (Tower C)	Jl Tidar	Central Surabaya	600	2019	IDR 11,500,000
Atrivm Residence	Jl. Sambikerep No.48	West Surabaya	543	2020	IDR 10,500,000
Benson Tower	Supermall Pakuwon Indah	West Surabaya	1,300	2020	IDR 22,600,000
East CBD (Tower A)	Jl. Gununganyar Sawah	East Surabaya	283	2020	IDR 15,500,000
East Coast Mansion (Tower A)	Pakuwon City	East Surabaya	1,450	2020	IDR 21,500,000
BeSS Mansion (Premier Tower)	Jl Raya Jemursari	South Surabaya	1,000	2020	IDR 14,400,000

Notes:

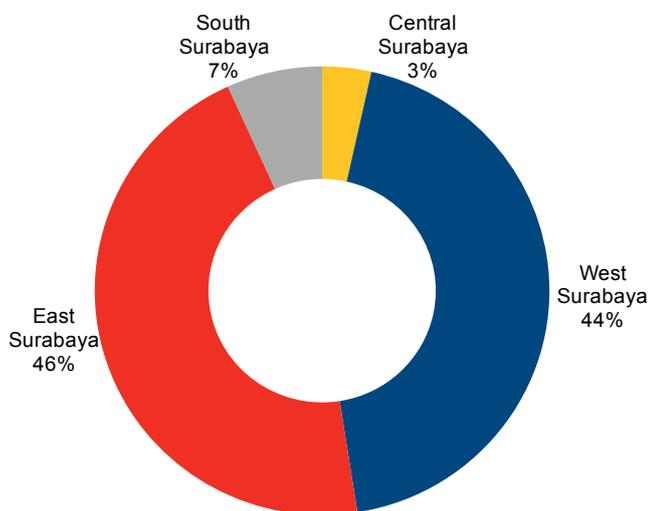
\*Price excludes 10% VAT

Source: Colliers International Indonesia - Research

Going ahead, the total number of apartment units projected to be offered in the market between 2017 and 2020 will be 33,092, reflecting a 116% increase from the current supply. The upcoming supply is mainly dominated by East Surabaya with 44% of the total supply from 16 projects, followed by West Surabaya by 35%

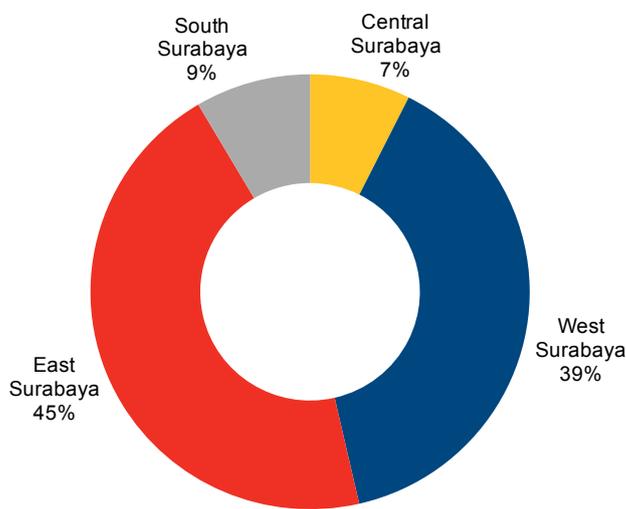
(17 projects), Central Surabaya by 11% (6 projects) and South Surabaya by 10% (5 projects). Further ahead, Surabaya's apartment market will have approximately 60,000 units from 88 projects in 2020, which is only one-third of the total apartment stock in Jakarta in 2016.

### Total Stock in 2016



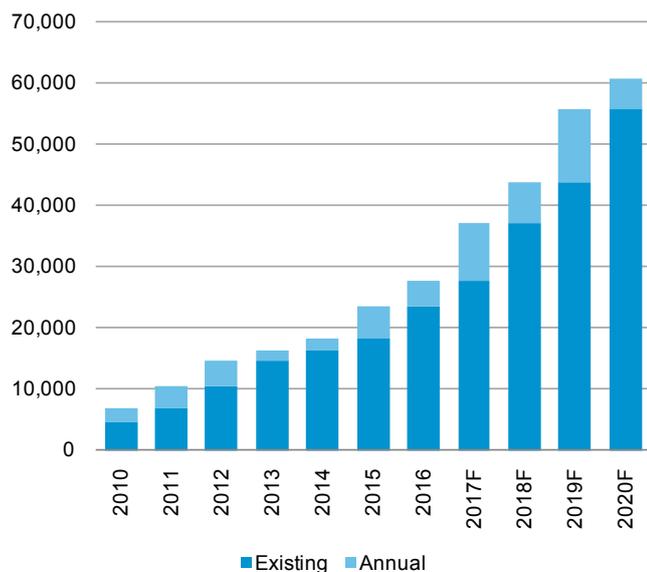
Source: Colliers International Indonesia - Research

### Total Stock in 2020



Source: Colliers International Indonesia - Research

## Cumulative Supply



Source: Colliers International Indonesia - Research

## Demand

Overall demand for apartments in Surabaya was relatively stable from the previous semester, although under some slight pressure from tight competition amongst projects under construction, due to a large number of new additional projects during this period. The average take-up rate of apartments in Surabaya achieved 81.2%, which is a slight increase from the previous period.

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

	H2 2015	H1 2016	H2 2016	HOH	YOY
Existing projects	97.03%	97.00%	97.62%	0.62%	0.59%
Under-construction projects	70.25%	68.30%	67.19%	-1.11%	-3.06%
Total	81.13%	81.00%	81.15%	0.16%	0.02%

Source: Colliers International Indonesia - Research

The last semester of 2016 witnessed stellar sales of some newly launched projects, particularly those that were built by big developers. The underlying reason behind the success was its attractive payment method and good location. In general, sales activity during the reviewed period was largely dominated by middle to lower segment priced at IDR300-700 million per unit. The combination of reasonable prices and flexible payment scheme facilitated by the developer made this segment easier to be absorbed.

### Average Take-up Rates in Different Regions in Surabaya

	H2 2015	H1 2016	H2 2016	HOH	YOY
West Surabaya	86.03%	86.60%	87.98%	1.39%	1.95%
East Surabaya	79.77%	80.83%	80.11%	-0.72%	0.34%
South Surabaya	66.30%	68.66%	70.58%	1.92%	4.28%
Central Surabaya	79.86%	63.66%	64.24%	0.58%	-15.62%

Source: Colliers International Indonesia - Research

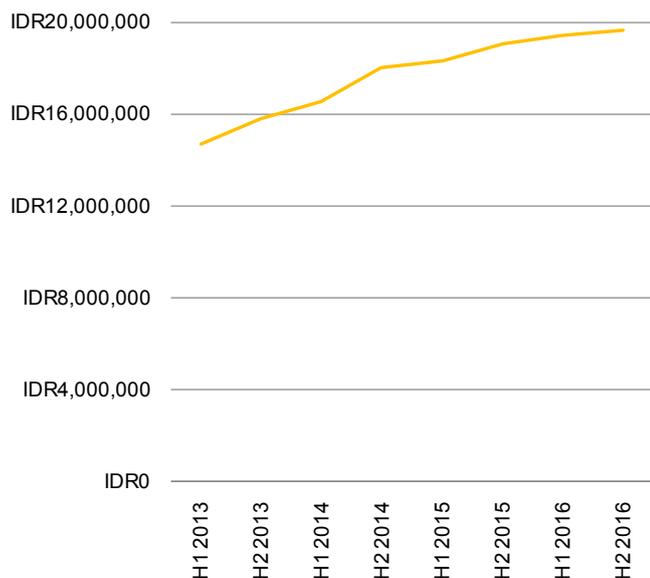
Location-wise, projects in West Surabaya remain the most highly sought after by end users and investors, due to a variety of facilities and better infrastructure. On the other hand, with limited new additional supply projects and relatively affordable prices, South Surabaya continues to record positive take-up rates during the reviewed period. Meanwhile, there is a number of new additional supplies in East Surabaya and Central Surabaya, which are mostly from middle-lower projects in the past year. This was not counterbalanced by the same level of absorption rate, which resulted in the downswing of take-up rate compared to the previous semester and previous year.

Going forward, favourable government policies, including the new LTV rules that reduced down payment from 20% to 15%, will maintain demand amongst first home buyers. Furthermore, infrastructure development will result to a sustained demand, particularly for middle to lower segment projects that mainly target end users. In addition, a lower interest rate environment, the gradual shift of people preferring high-rise living and the improving lifestyle of young families living in the city centre are expected to create more room to the apartment market industry to grow in the longer term.

## Asking Price

Most apartment projects in Surabaya did not increase their asking price due to the relatively slowing market condition. In some cases, even with the continuing construction works, developers have strategically decided not to aggressively increase their price, aiming instead to keep their products affordable, hoping to attract potential buyers. On the other hand, some newly introduced projects that are offering prices below the market rate made some areas lower their average price and thus hampered the overall price growth. Also, the average price of apartments in Surabaya was recorded at IDR19.7 million/sq m, which increased slightly by 1.26% HoH and 3.26% YoY.

## Price Growth of Apartment in Surabaya



Source: Colliers International Indonesia - Research

Cushioned by positive performance, the asking price in West Surabaya continues to show an upward trend during this period. On the other hand, the relatively significant increment in East Surabaya is mainly due to the incoming new projects, which offer better concepts and quality of products, and thus pushing the average price to increase. Meanwhile, contrary to East Surabaya, more newly launched projects from the middle to lower segment in South and Central Surabaya dragged down the overall average prices.

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

	H2 2015	H1 2016	H2 2016	HoH	YoY
West Surabaya	IDR20,196,674	IDR20,489,526	IDR20,688,296	1.0%	2.4%
East Surabaya	IDR14,471,972	IDR15,096,816	IDR15,853,113	5.0%	9.5%
South Surabaya	IDR17,534,063	IDR17,840,790	IDR17,458,480	-2.1%	-0.4%
Central Surabaya	IDR28,739,518	IDR29,537,109	IDR28,351,203	-4.0%	-1.4%

Source: Colliers International Indonesia - Research

## APARTMENT FOR LEASE

### Supply

There were no new apartments for lease (both serviced and non-serviced) completed between July and December 2016. Meanwhile, the number of units at Graha Residen Serviced Apartment, a low-rise fully furnished with resort concept in West Surabaya, declined as they decided to close 124 units; only 27 units remain. After having operated for 26 years, the management made such a decision because the

developer, Intiland, is planning to build a high-rise mixed-use building, including residences, offices and hotel. As such, the total cumulative supply of apartments for lease in Surabaya dwindled to 649 units, a decrease by 16% from 773 units.

After all, the number of apartment for lease projects is expected to grow, especially from the upcoming serviced apartment projects in East Surabaya. We recorded that as many as three serviced apartments are in the pipeline, two projects are slated to open in 2017 and one project is still in planning stage.

### Supply Pipeline of Serviced Apartments in Surabaya

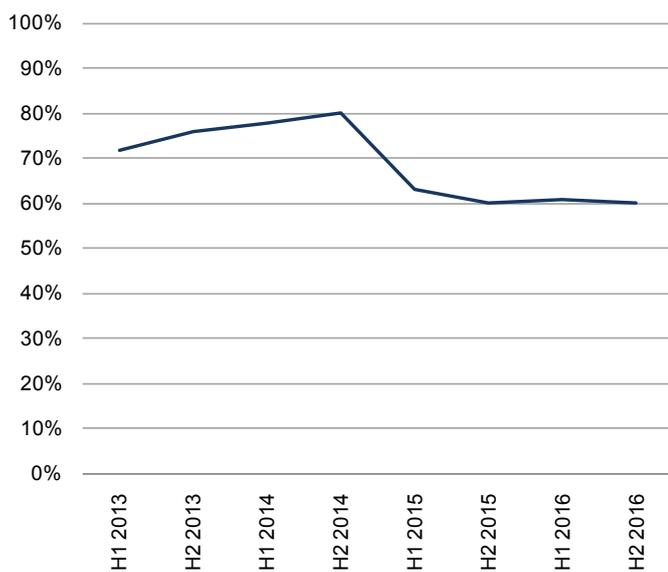
NAME OF DEVELOPMENT	LOCATION	REGION	YEAR OF OPERATION	NO. OF UNITS
Citadines Marvell Surabaya	Jl. Ngagel	East Surabaya	2017	288
Oakwood Residences at One East Petnhouse & Residences	Jl. Raya Kertajaya Indah	East Surabaya	2017	144
Graha Golf Serviced Apartment	Graha Family	West Surabaya	TBA	TBA

Source: Colliers International Indonesia - Research

## Occupancy

The leasing market remained relatively stable in the second semester of 2016, with a few projects continuing to outperform the rest of the market, most notably in the West Surabaya area. Overall, the average occupancy rate has relatively stabilised at 60% as of the end of 2016. This occupancy figure represents the average percentage of long-term tenants that stay for a minimum of one month in each serviced and non-serviced apartment.

### Average Occupancy Rate of Apartment for Lease in Surabaya



Source: Colliers International Indonesia - Research

The city is still experiencing limited enquiries of long-term tenants, especially from expatriates. On the other hand, the short-term demand from business travellers and families or groups is helping offset the weakening demand from expatriates. In addition, most serviced apartments offered a number of discounts and various marketing gimmicks during the year-end holiday to lure potential tenants.

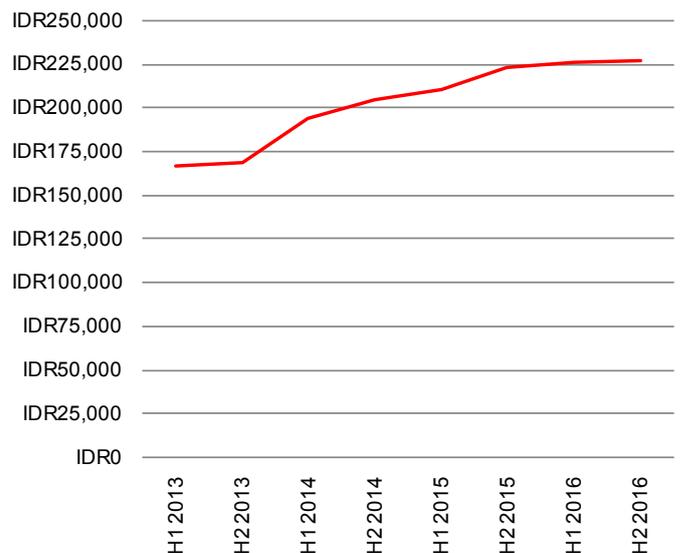
Unlike in Jakarta, serviced apartments in Surabaya are fully supported by a strong demand from short-term lease. Typically, serviced apartments in Surabaya achieve high occupancy rate in the weekend, as families or groups wanting to spend their leisure time in town generate demand. Contrast with the average occupancy rate of long-term tenants, occupancy can reach 70-80% during the weekend, with two-bedroom and three-bedroom units as the most favoured types.

## Rental Rate

Overall, the rental rate of apartments for lease in Surabaya remained stable, since all the apartments are using rupiah in both quoted and transacted rental rates. As of H2 2016, the average rental rate of apartments for lease in Surabaya was recorded at IDR226,626/sq m/month, which increased only marginally by 0.1% HoH or 1.6% YoY. A minor increment occurred during the reviewed period because one serviced apartment increased its rental for their two-bedroom units, as the unit experienced high occupancy rate.

Furthermore, as some serviced apartment projects were integrated as hotels, their management adopted hotel-like features and services to determine their rental rate, which is based on the occupancy rate for each type of units. The higher the occupancy rate, management is more likely to adjust the rent higher. Going ahead, based on our survey, we were not able to confirm next year's rates. We believe that along with the softer demand, the managements of apartments for lease in Surabaya are reluctant to raise rental rates in the coming year.

### Rental Rate of Apartment for Lease in Surabaya



Source: Colliers International Indonesia - Research

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