

Colliers Half Year Report

H2 2016

16 February 2017



# SURABAYA PROPERTY MARKET REPORT





## Highlights

### Office Sector

Four office buildings began operation during 2016 adding 78,081 sq m to the supply, the largest annual supply recorded since 1990. The additional office space brought cumulative supply to 347,333 sq m, growing 29% YoY. As a result, the influx of new office space caused occupancy to drop to 75.1%. Asking rent in the newly operating buildings was substantially above the market average, thus causing the average asking base rent to jump significantly by 38% YoY to IDR151,552/sq m/month at year end 2016.

### Apartment Sector

During 2016, strata-title apartment stock increased by 4,072 units (17.3% YoY) to 27,663 units as of H2 2016. The average take-up rate of apartments in Surabaya achieved 81.2%, which is a slight increase from the previous period. Most apartment projects in Surabaya did not increase their asking price due to relatively slow market conditions. By the end of 2016, apartment prices in Surabaya edged up slightly by 1.3% HoH and 3.3% YoY to an average of IDR19.7 million/sq m.

### Retail Sector

Newly operating shopping centres caused occupancy to drop as of H1 2016, but no new shopping centers completed during H2 2016 with the cumulative supply ending at 967,808 sq m. Occupancy climbed slightly and stood at 83.2% as of H2 2016, thanks to the performance of the newly operating Tunjungan Plaza V in Central Surabaya. The average asking rents for all shopping centre classes were recorded at IDR438,178/sq m/month as of H2 2016.

### Hotel Sector

During H2 2016, there were only two new hotel projects in Surabaya, providing a total of 654 rooms bringing the total number of star-rated hotel rooms in Surabaya to 11,682. Hotel competition in Surabaya has become extremely high, particularly during the last three years. The AOR for 2014 and 2015 were relatively low at 66.7% and 69.4%, respectively with 2016 being even lower with an average of 55.7%. The ARR for 2016 was also below that of the previous two years, being recorded at USD45.30

# Office Sector

Ferry Salanto Senior Associate Director | Research

Office demand was not yet strong in Surabaya. A larger additional supply brought occupancy to drop significantly. Occupancy is still forecasted to further go down in 2017.

Despite decreased occupancy, average asking rents were seen to be increasing, mainly contributed by newly operating office buildings.

## Forecast at a glance



### Supply

Four office buildings began operation and brought 78,081 sq m additional supply in 2016, the largest annual supply since 1990. These four office buildings also brought the cumulative supply growth to 29% YoY. However, future supply in 2017 is expected to be lower than the previous year. Two strata-title office buildings are expected to meet completion and begin operation in 2017. Based on area, East and West Surabaya are expected to be the largest contributors for future supply.



### Occupancy

Larger additional supply and slowing demand caused Larger supply and sluggish demand caused occupancy to fall by 75.1%, around 12% YoY. Occupancy is forecasted to continue to decrease in 2017. The average additional supply per year increased two times faster than the annual demand between 2010 and 2016. On the other hand, the finance industry, particularly banking and insurance, hold to expand its business due to a slowing down economy. Shop houses also still became a big threat for office markets in Surabaya.



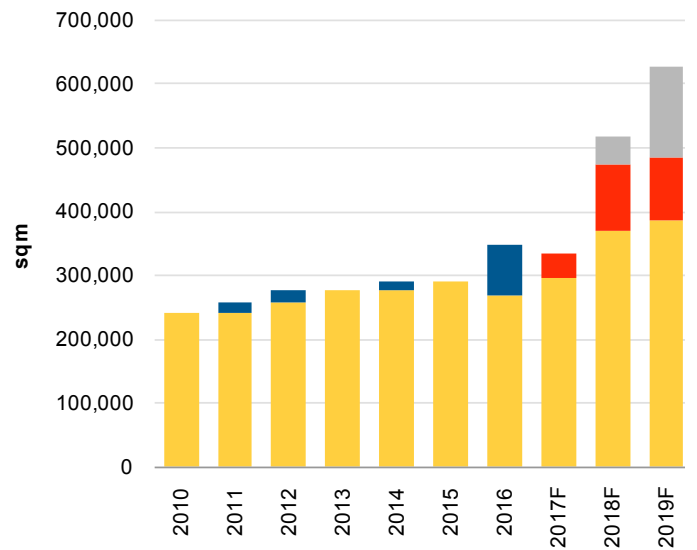
### Rent

Newly operating office buildings contributed and brought the average rent at IDR144,150/sq m/month, an increase of 32% YoY. The rent is expected to remain relatively flat due to larger vacant spaces that will continue to exist in 2017.

## OFFICE FOR LEASE

### Supply

#### Cumulative Office Supply



■ Existing Supply ■ Additional Supply ■ Under Construction ■ In Plannir  
Source: Colliers International Indonesia - Research

AMG Tower and Skyline Office Tower, both located in South Surabaya, began operations in H2 2016. Including Pakuwon Centre and MNC Tower that began previously operation in the first semester, these four office buildings provided 78,081 sq m additional office spaces and brought in 2016 the largest total supply in Surabaya since 1990. This additional supply also allowed the cumulative supply to grow significantly by 29% YoY and currently recorded at 347,333 sq m.

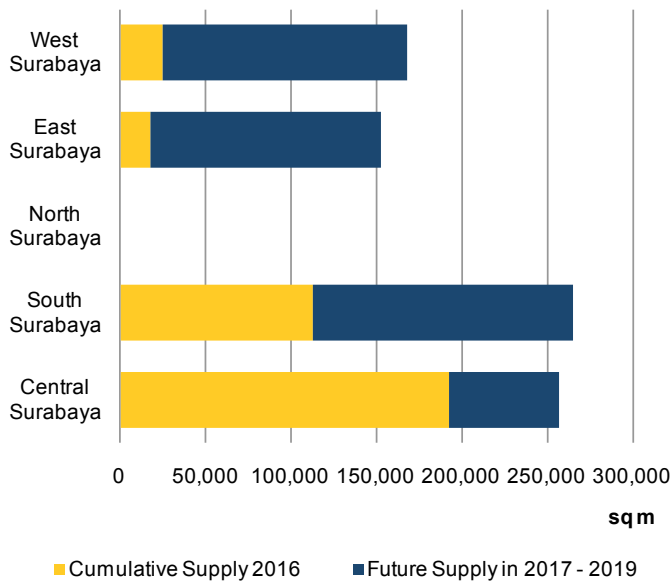
Future supply is expected to be available in the coming years. Two office buildings namely Samator Skysuites and Ciputra World Surabaya Skyloft will seemingly meet their completion in 2017. These two office buildings will introduce and provide the SOHO (Small Office, Home Office) concept in Surabaya. Also, office supply is expected to thrive in Surabaya, with a total of 16 office buildings expecting completion, bringing around 430,000 sq m additional office space in 2017-2019. With a huge projected future supply, the cumulative office supply will grow 40% per annum in Surabaya until 2019.

Based on construction progress, 55.8% of the total future office space, which includes 10 office buildings, has started construction. Some of these office buildings are preparing to start basement works, whilst Praxis and Pakuwon Tower showed significant construction progress as of H2 2016.

Office building projects is expected to rise in other places, as Central Surabaya is seen to slow down due to limited vacant lands. Developing MERR (Middle East Ring Road) and OERR (Outer East Ring Road) will significantly impact future developments, particularly in East Surabaya. At least three future office buildings will be developed in the surrounding MERR. More future office buildings are concentrated around or having accessibility to the main road. West and South Surabaya are expected to lead as major contributing areas by constructing 10 future office buildings up to 2019. Most of these future office buildings will be developed around Jalan Mayjend Sungkono and HR Muhamad. Meanwhile, Satoria and two office buildings within Ciputra World Surabaya Complex have been recently launched.

Central Surabaya will become the lowest contributor, providing only two office buildings, Praxis and Pakuwon Tower.

### Existing Supply and Future Office Distribution in Several Regions in Surabaya



Source: Colliers International Indonesia - Research

Based on marketing scheme, Pakuwon Centre and AMG Tower will provide new office spaces for sale (strata-title office buildings). These two office buildings brought the total office for sale supply to 111,881 sq m in 2016. More office buildings are expected to provide office spaces for sale in Surabaya. Meanwhile, Samator Skysuites and Ciputra World Skyloft are expected to begin operation in 2017. Also, Surabaya will see larger additional office spaces for sale in 2018. Pakuwon Tower, Spazio Tower and Voza Tower are expected to meet completion and bring around 80,000 sq m new additional office spaces for sale in 2018.

### Cumulative Supply Based on Marketing Scheme

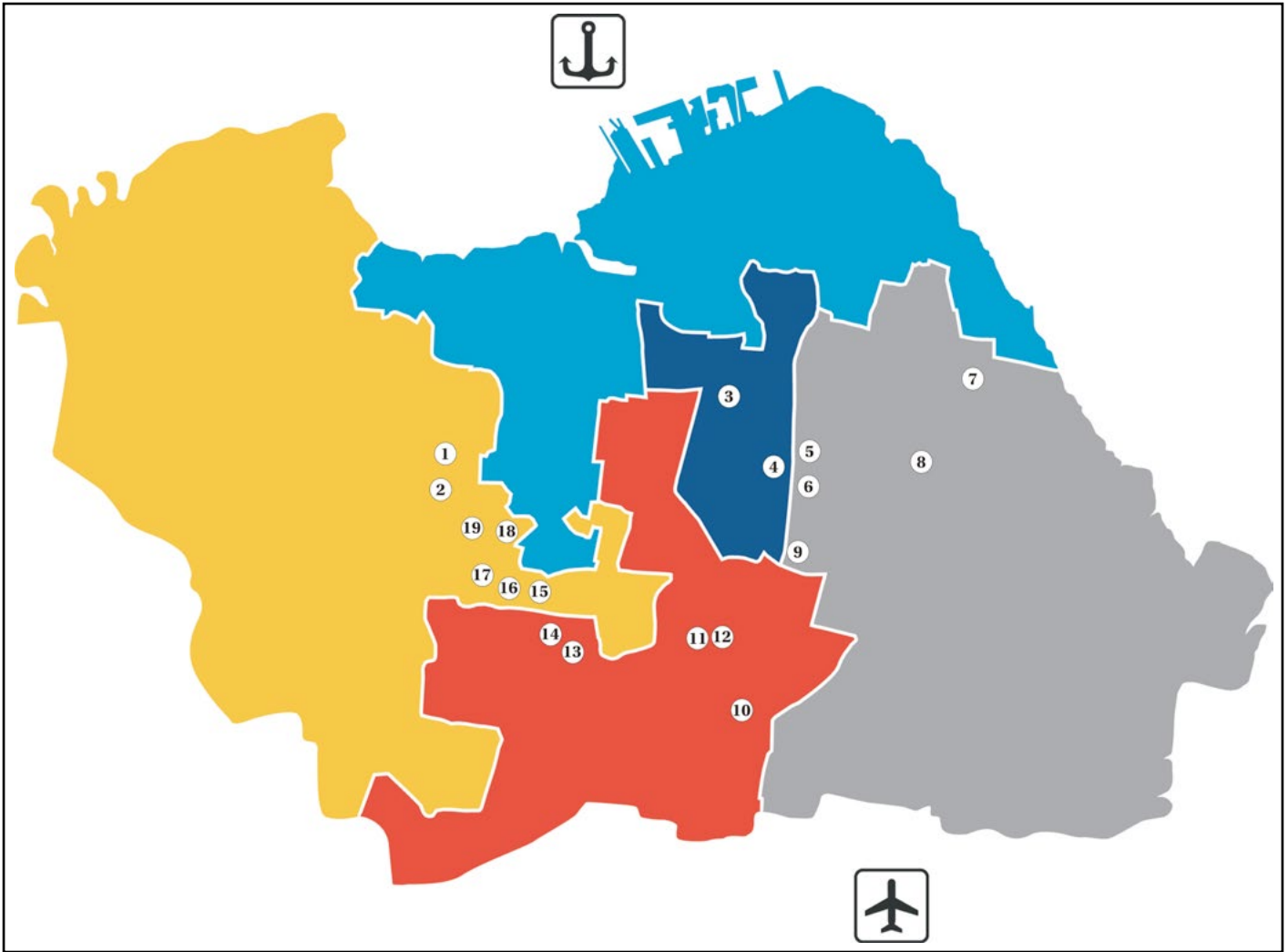


Source: Colliers International Indonesia - Research

New Supply Pipeline				
OFFICE BUILDINGS PROJECT NAME	LOCATION	DEVELOPER	SGA (SQ M)	MARKETING SCHEME
<b>2017</b>				
The Samator Skysuites SOHO	Kedung Baruk	Samator Land PT	22,000	For Sale
Ciputra World Surabaya Skyloft SOHO	Mayjend Sungkono	Ciputra Group	16,745	For Sale
<b>2018</b>				
Praxis Office Tower	Panglima Sudirman	Intiland Development Tbk PT	12,000	For Lease & Sale
Voza Office Tower	HR Muhammad	Avia Avian	18,607	For Sale
Pakuwon Tower	Basuki Rahmat	Pakuwon Jati	39,740	For Lease & Sale
Office Tower at Puncak Dharmahusada	MERR, Mulyorejo	Surya Bumimegah Sejahtera PT	42,500	For Lease
Spazio Tower	Bukit Darmo Boulevard	Intiland Development Tbk PT	20,000	For Sale
<b>2019</b>				
Office Tower at Marvell City	Ngagel	Assa Land PT	12,000	For Lease
Capital Square	HR Muhammad	Greenwood	39,950	For Lease
Satoria Tower	HR Muhammad		34,000	For Sale
Office Tower at One Galaxy	Dharmahusada	Puri Galaxy PT (Sinar Galaxy Group)	31,450	For Lease
Signature Gallery	Gubeng	AKR Land	27,300	For Lease
Ciputra World Surabaya Office Tower	Mayjend Sungkono	Ciputra Group	37,400	For Sale
Office Tower at Puncak CBD Jajar Tunggal	Jajar Tunggal	Surya Bumimegah Sejahtera PT	30,000	For Lease
Office Tower at Puncak Bukit Golf Square	Bukit Darmo Boulevard	Surya Bumimegah Sejahtera PT	30,000	For Lease
<b>2020</b>				
The Frontage	Ahmad Yani	Trikarya Graaha Utama	30,000	For Sale
Office Tower at Grand Sungkono Lagoon	Abdul Wahab Siamin	PP Property	38,250	For Lease
The SOHO 88 Avenue	Darmo Permai	Darmo Permai	22,100	For Sale
The Infinity 88 Avenue	Darmo Permai	Darmo Permai	21,250	For Lease

Source: Colliers International Indonesia - Research

Map of New Pipeline for Office Buildings in Surabaya



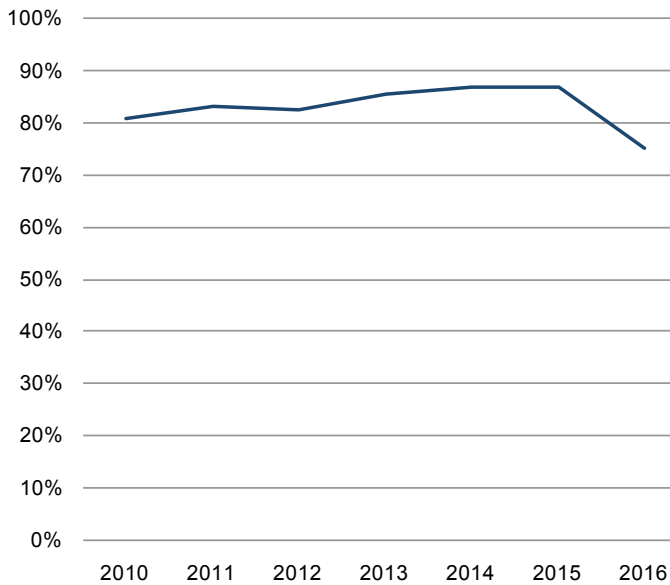
LEGEND			
1. The Infinity 88 Avenue	6. The Samator Skysuites SOHO	11. Ciputra World Surabaya Skyloft SOHO	16. Voza Office Tower
2. The SOHO 88 Avenue	7. Puncak Dharmahusada	12. Ciputra World Surabaya Office Tower	17. Spazio Tower
3. Pakuwon Tower	8. One Galaxy	13. Puncak CBD Jajar Tunggal	18. Satoria Tower
4. Praxis Office	9. Marvel City	14. Grand Sungkono Lagoon	19. Puncak Bukit Golf Square
5. Signature Gallery	10. The Frontage	15. Capital Square	

Source: Colliers International Indonesia - Research

# Performance

## Occupancy Rates

### Occupancy Rates



Source: Colliers International Indonesia - Research

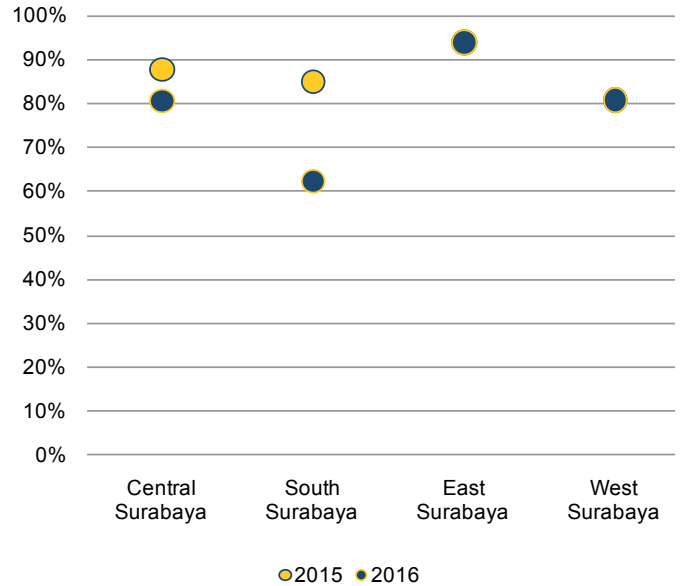
Occupancy continued to drop at 75.1%. The sluggish economic growth and large additional supplies (as mentioned above) greatly impact occupancy, making it declining 11.8% YoY. Surabaya recorded occupancy below 80% in 2008, but showed an increasing trend and was maintained above 80% up to 2015. This growth was due to the average supply that was recorded in line with demand from 2009 to 2015. Meanwhile, supply of office space in 2016 was larger than the total additional supply in 2009-2015.

The finance industry, consisting of banking, securities and insurance companies, is still a key demand generator in Surabaya. Nevertheless, absorption was recorded very soft for each office building in 2016. Moreover, an office building maintained larger vacant spaces since Bank Mandiri, its major tenant, relocated to Tunjungan.

South Surabaya showed a decreasing occupancy YoY. Occupancy fell significantly in South Surabaya due to a large additional supply, and currently slumped 22.7% YoY to 62.4%. Larger additional supply also significantly impacted the average occupancy rates in Central Surabaya. Despite falling by 7.1% YoY, Central Surabaya maintained its occupancy above 80% in 2016. Conversely, occupancy showed relatively flat in West and East Surabaya, YoY. However, three office buildings in East and West Surabaya still currently have a total of 5,500 sq m vacant spaces.

Although occupancy dropped significantly, most large vacant spaces were contributed by newly operating office buildings. These newly operating office buildings recorded an average occupancy of 30% as of 2016. With lower future supply and the forecasted economic growth, occupancy is expected to bounce back in 2017, although gradually.

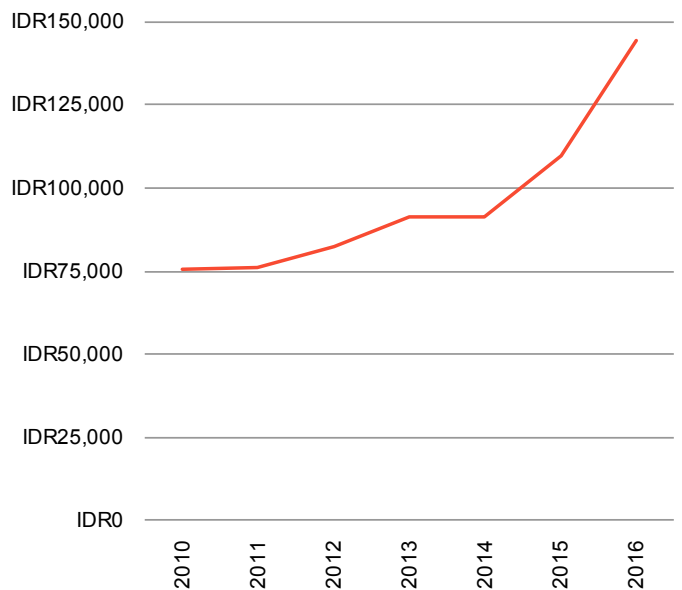
### Occupancy Rates in Different Regions of Surabaya



Source: Colliers International Indonesia - Research

## Asking Base Rent

### Average Asking Base Rent

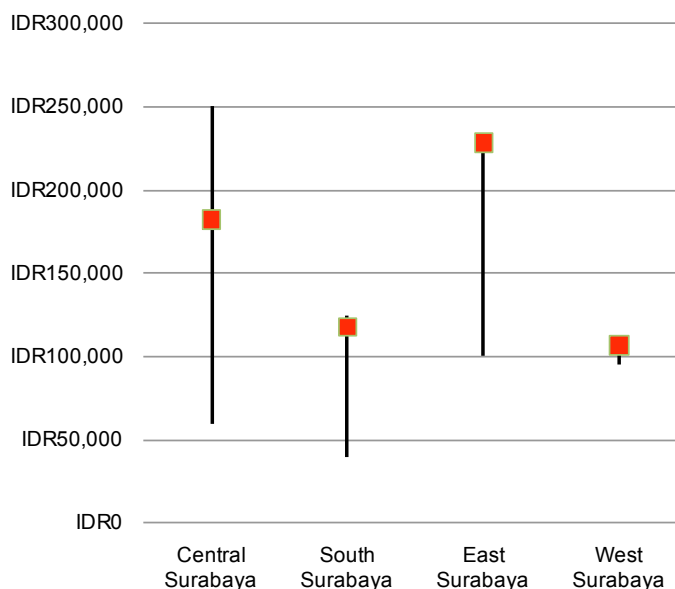


Source: Colliers International Indonesia - Research

The asking base rental jumped significantly starting in 2015. The average rents continued to grow 38.4% YoY and stood at IDR151,552/sq m/month in 2016. It was contributed by four new office buildings that offer base rental above market prices. Pakuwon Center, which is located within a mixed-use development area in the city centre, currently recorded the highest asking base rental in Surabaya.

Most unabsorbed spaces are located in office buildings that offer a higher base rental. Based on region, except East Surabaya, most areas recorded asking base rentals between IDR100,000 and IDR120,000/sq m/month in previous year. The newly operating office buildings brought the average rents at IDR131,778 and IDR182,096/sq m/month in South and Central Surabaya, respectively. Also, the significantly rising asking base rental in Central Surabaya was due to MNC Tower and Pakuwon Centre. Although these office buildings offer high rents, most office buildings, particularly old office buildings, currently offer base rental below IDR100,000/sq m/month in Central Surabaya. Newly operating office buildings also contributed to bring the average rent in South Surabaya jumping at 30% YoY. Meanwhile, the significant rental increase in South Surabaya caused average rent to be the lowest in West Surabaya. Average asking rent stabilised at IDR106,686/sq m/month in West Surabaya YoY. However, office supply is expected to grow in West Surabaya, particularly at Jalan HR Muhammad and Darmo. The development of more high-quality office buildings would likely boost the projected average rents to increase in West Surabaya.

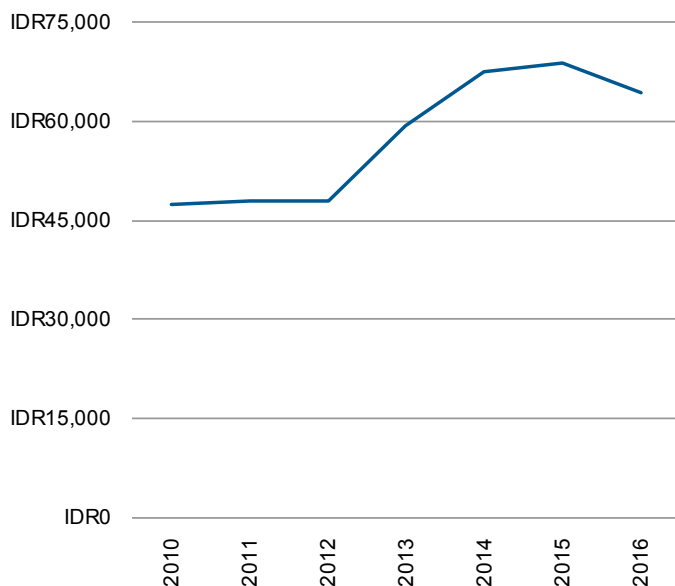
### Average Asking Rent in Different Region of Surabaya



Source: Colliers International Indonesia - Research

## Service Charge

### Average Service Charge



Source: Colliers International Indonesia - Research

Service charge was currently recorded between IDR25,000 and IDR105,000/sq m/month. At least seven office buildings recorded the highest service charges, between IDR80,000 and IDR110,000/sq m/month. Two office buildings showed the highest growth of service charge by 14% YoY.

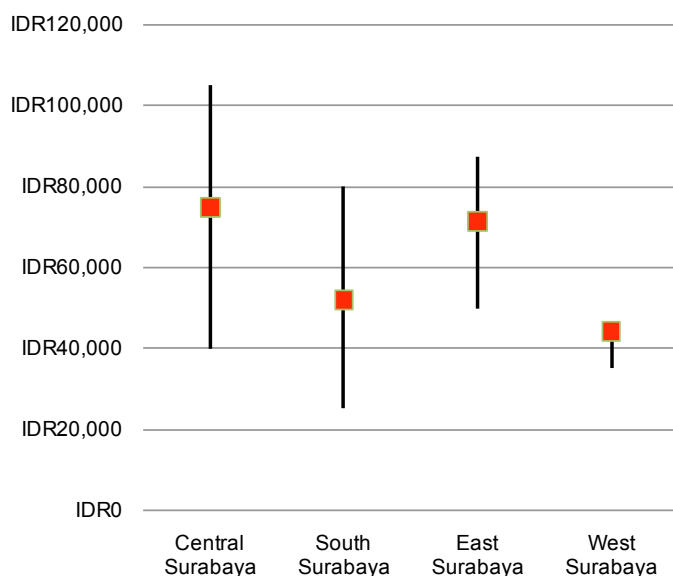
Newly operating office buildings impacted the average service charges in 2016 in different ways. Except for Pakuwon Centre, service charge was recorded below IDR55,000/sq m/month at the other three new office buildings. Two of them are strata-title office buildings for sale.

These office buildings, mentioned above, offer service charges below market prices and contributed to bring the average service charge at IDR64,420/sq m/month in 2016, a decrease of 6.6% from the previous year.

Service charge showed an increase of 9.2% in East Surabaya, but substantially dropped 24.8% in South Surabaya. Service charge was recorded relatively flat YoY in other areas, Central and West Surabaya.



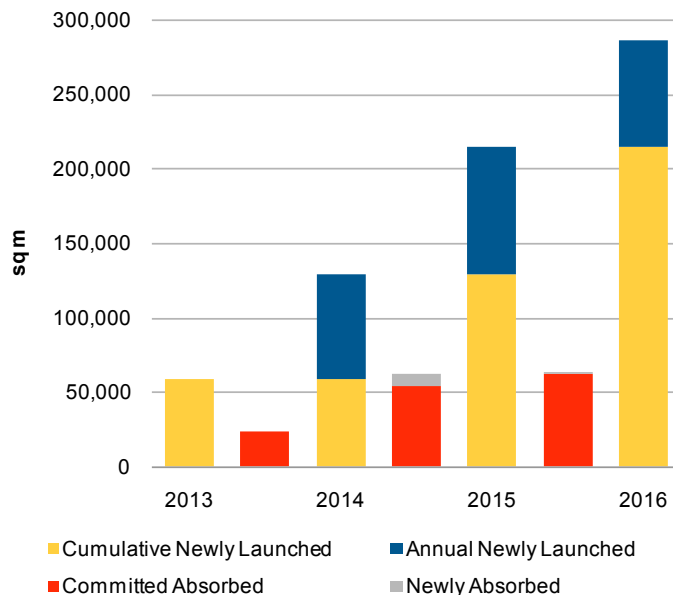
## Average Service Charge in Different Region of Surabaya



Source: Colliers International Indonesia - Research

## OFFICE FOR SALE/STRATA-TITLE

### The Performance at Newly Launched Strata-Title Office in 2013 - 2016



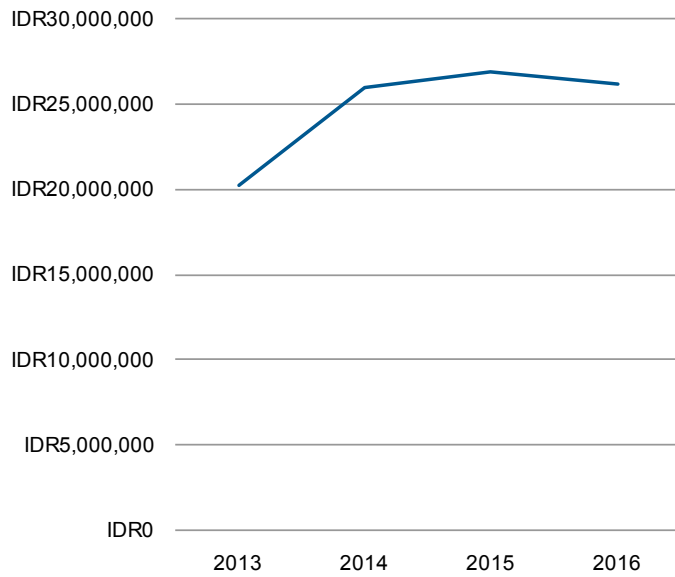
Source: Colliers International Indonesia - Research

Supply of office space for sale is expected to increase significantly until 2019. As AMG Tower and Pakuwon Centre began operation in 2016, at least eight future strata-title office buildings will bring almost 220,000 sq m total additional office spaces for sale in Surabaya from 2017 to 2019. Three strata-title office buildings were launched in 2016, two of which are located within Ciputra World Surabaya Complex. After Ciputra SOHO began construction, the landlord currently launched Ciputra World Surabaya Office and Vie Loft SOHO. The other strata-title office building is Satoria, located in Jalan HR Muhammad. Ciputra World Surabaya Office and Satoria are expected to meet completion in 2019, whilst Vie Loft in 2020.

Providing huge projected additional supply, the market for strata-title office building will face a bigger challenge in Surabaya. Take-up rate was not more than 40% for the overall strata-title office buildings in 2016. Furthermore, the current take-up rate commitment was only around 18% for strata-title office buildings in 2017-2019.

With a large number of unabsorbed spaces and poor demand, office market for sale is forecasted to see a tight competition, significantly impacting its projected asking prices. The growth of asking prices recorded relatively flat YoY. Asking prices remain between IDR20 million and IDR30 million/sq m for vacant spaces at newly operating and mostly future office buildings.

## Annual Space Absorbed for Future Office Building



Source: Colliers International Indonesia - Research

## Concluding Thought

Supply is expected to grow more particularly in the southern part of Surabaya while East and West Surabaya are expected to connect by building infrastructure, particularly developing a ring road. South Surabaya, on the other hand, will benefit from the growth of these two areas.

More future office buildings will be developed within a mixed-use concept. This is due to the fact that the office market was still seen unsteady, mainly threatened from shop house. An integrated development is expected to benefit each development.



# 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:

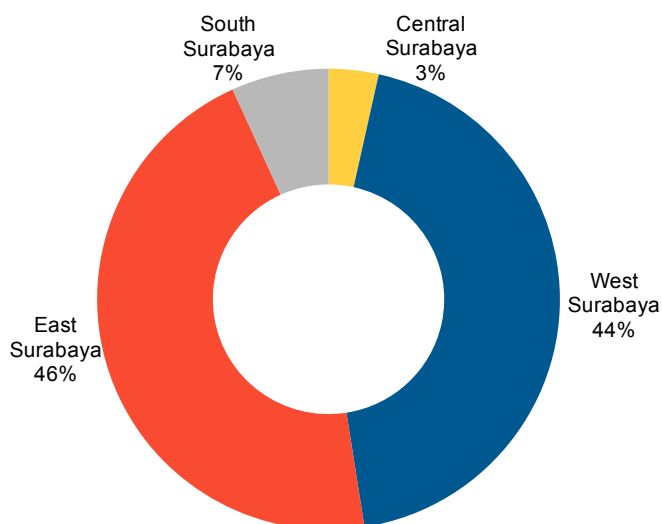
\*Price excludes 10% VAT

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%

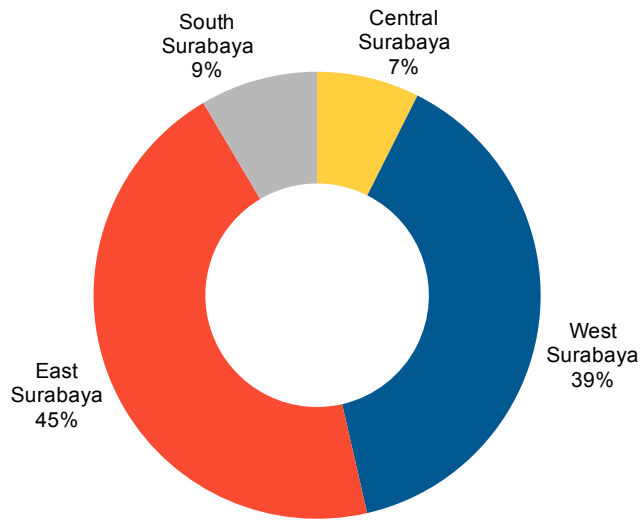
(17 projects), Central Surabaya by 11% (6 projects) and South Surabaya by 10% (5 projects). Further ahead, Surabaya's apartment market will have approximately 60,000 units from 88 projects in 2020, which is only one-third of the total apartment stock in Jakarta in 2016.

### Total Stock in 2016



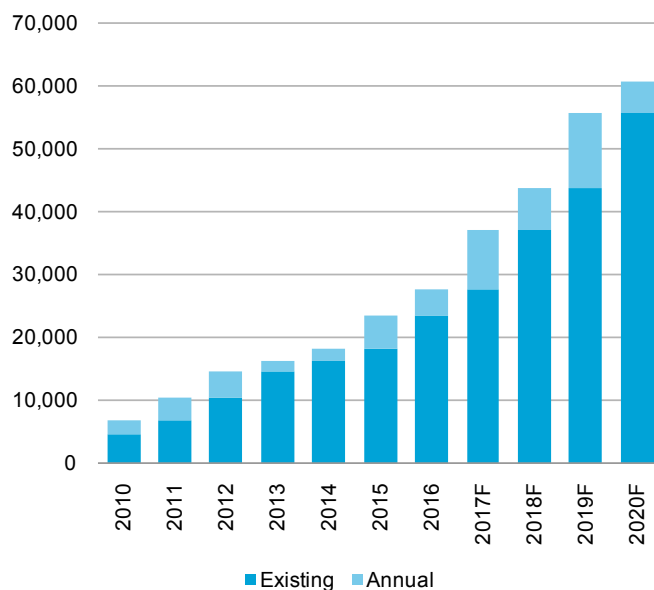
Source: Colliers International Indonesia - Research

### 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%
<b>Total</b>	<b>81.13%</b>	<b>81.00%</b>	<b>81.15%</b>	<b>0.16%</b>	<b>0.02%</b>

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

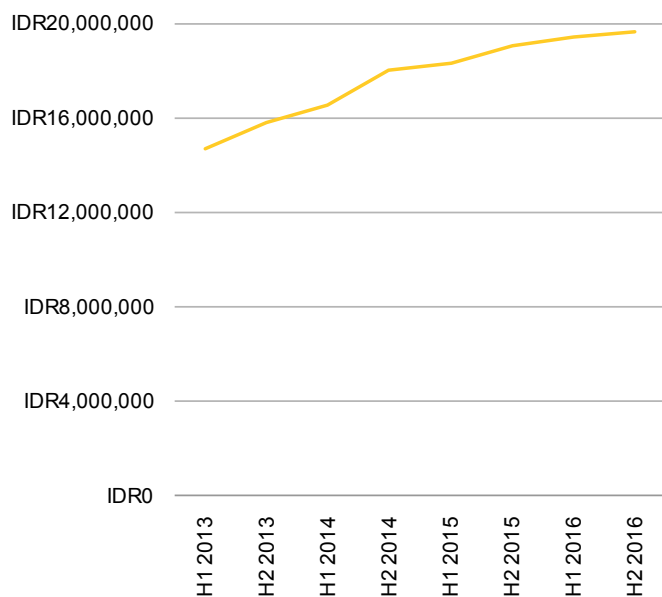
Location-wise, projects in West Surabaya remain the most highly sought after by end users and investors, due to a variety of facilities and better infrastructure. On the other hand, with limited new additional supply projects and relatively affordable prices, South Surabaya continues to record positive 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

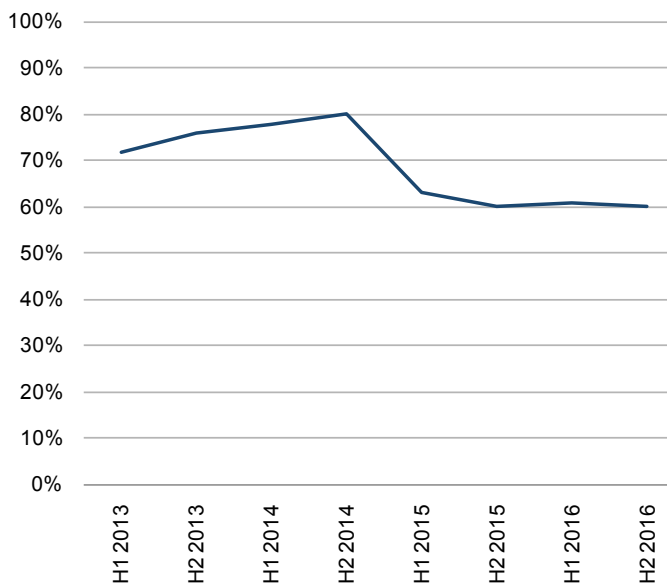
NAME OF DEVELOPMENT	LOCATION	REGION	YEAR OF OPERATION	NO. OF UNITS
Citadines Marvell Surabaya	Jl. Ngagel	East Surabaya	2017	288
Oakwood Residences at One East Petnhouse & Residences	Jl. Raya Kertajaya Indah	East Surabaya	2017	144
Graha Golf Serviced Apartment	Graha Family	West Surabaya	TBA	TBA

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.

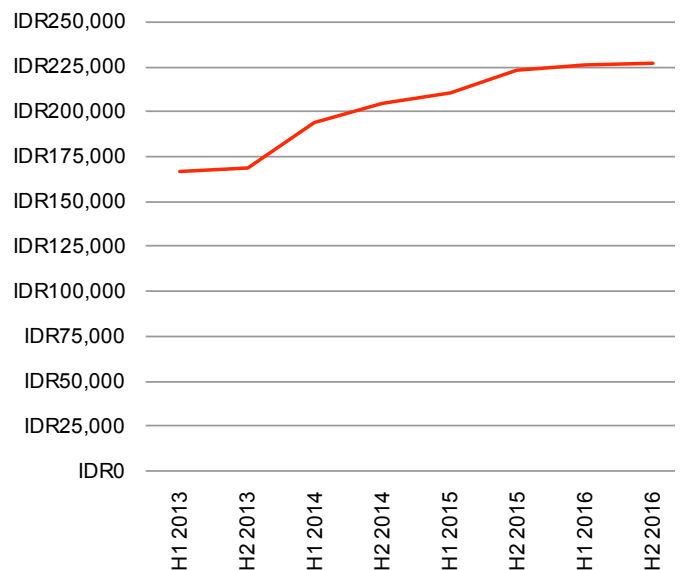
Unlike in Jakarta, serviced apartments in Surabaya are fully supported by a strong demand from short-term lease. Typically, serviced apartments in Surabaya achieve high occupancy rate in the weekend, as families or groups wanting to spend their leisure time in town generate demand. Contrast with the 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



# Retail Sector

Ferry Salanto Senior Associate Director | Research

**Supply is expected to grow. Six future shopping centres are currently under construction and expected to meet completion consecutively starting from 2017 to 2019.**

**Occupancy maintained a healthy level despite sliding YoY. More committed tenants are expected to open when the mall officially begins operation.**

**Some branded fashion retailers are aiming to expand in Surabaya, particularly middle-upper class shopping centres.**

## Forecast at a glance



### Supply

Retail supply is expected to grow in Surabaya. At least, six shopping centres are currently under construction. Two of these shopping centres will bring the cumulative supply to one million sq m in 2017, which is a 5.2% increase from 2016.



### Occupancy

Occupancy remained at 83% in 2016, improving despite very modest HoH. However, occupancy was recorded lower YoY. Larger additional supplies will bring a challenge for the projected occupancy rates. Fashion, food and beverages still remain as demand generators for shopping centres in Surabaya.



### Rent

Rent was recorded at IDR438,718/sq m/month, climbing gradually YoY. Landlords prefer to boost their occupancy rates than adjusting their asking rents higher than previously. Asking rents were affected by upper class shopping centres in Surabaya.

## Supply

Marvell City began operation and contributed 15,000 sq m of new additional supplies, whilst Golden City Mall stopped operation. Without additional supply as of H2 2016, the cumulative supply was currently recorded at 967,808 sq m; 61.9% of the total supply is marketed for lease. The supply of retail spaces for lease is expected to continue increasing whilst strata-title retail showed a stagnant supply since 2009.

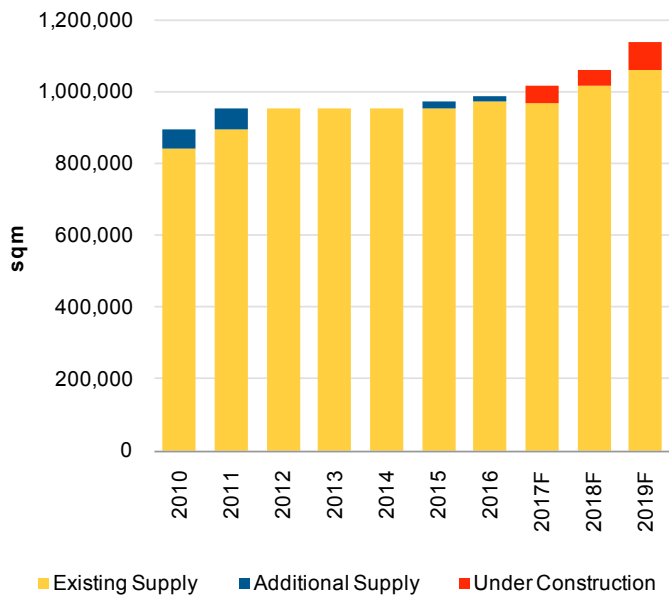
Surabaya's cumulative supply will reach a million sq m in 2017. In total, Surabaya will provide 172,000 sq m future additional supply, which will be contributed by six shopping centres from 2017 to 2019. These six shopping centres are currently under construction and which are particularly part of office and residential development. Pakuwon Mall and The Central Gunawangsa Tidar will seemingly meet completion and ready to start operation in early 2017. The other shopping centres still under construction are Galaxy Mall 3, Tunjungan Plaza VI, Ciputra World Surabaya 2 and Praxis. Praxis will only provide small spaces in a retail centre, which is integrated with an office building in one tower. In addition to Pakuwon Mall and Tunjungan Plaza VI, the developer will begin constructing the extension of East Cost Centre within Pakuwon City (East Surabaya). This shopping centre will be developed as a community mall that will bring a lifestyle concept for residents who live in surrounding shopping centres. The World Trade Centre (WTC), which is known as e-mall (electronic mall) and located at the city centre of Surabaya, is also enlarging the retail spaces. The extension of WTC is currently under construction and expects to meet completion in early 2017.

Other shopping centre projects were also announced and are expected to be ready for operation after 2019. Most of them will also be within a mixed-use development.

Based on area, except North Surabaya, all areas of Surabaya will actively contribute new retail spaces from 2017 to 2019. Three of the six future shopping centres mentioned above will be located in Central Surabaya. These three shopping centres will contribute 30% of the total future supply in 2017-2019. Furthermore, East Surabaya expects to become a generator of retail supply with its growing infrastructure and residential developments.

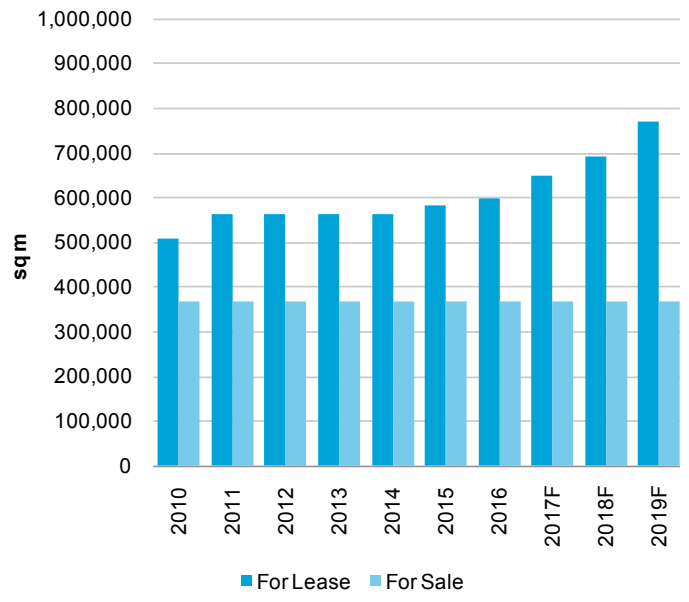


### Cumulative Supply of Retail Centers in Surabaya



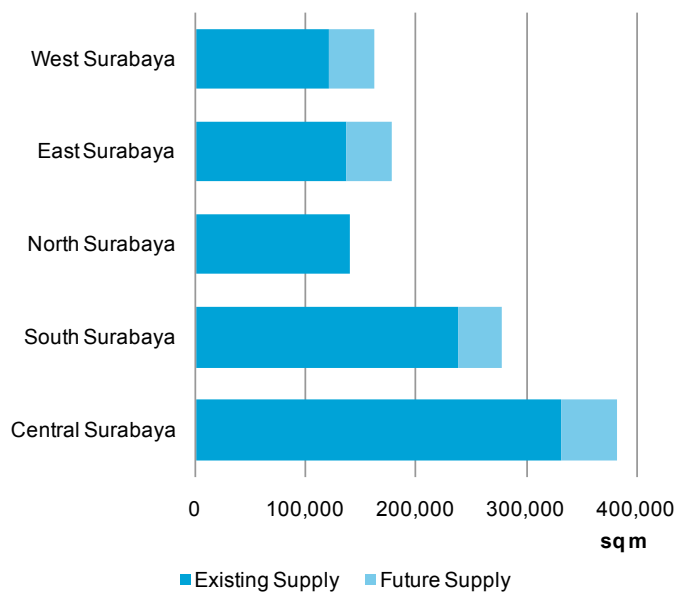
Source: Colliers International Indonesia - Research

### Cumulative Supply Based on Marketing Scheme



Source: Colliers International Indonesia - Research

### Existing and Future Office Distribution in Several Regions of Surabaya up to 2019

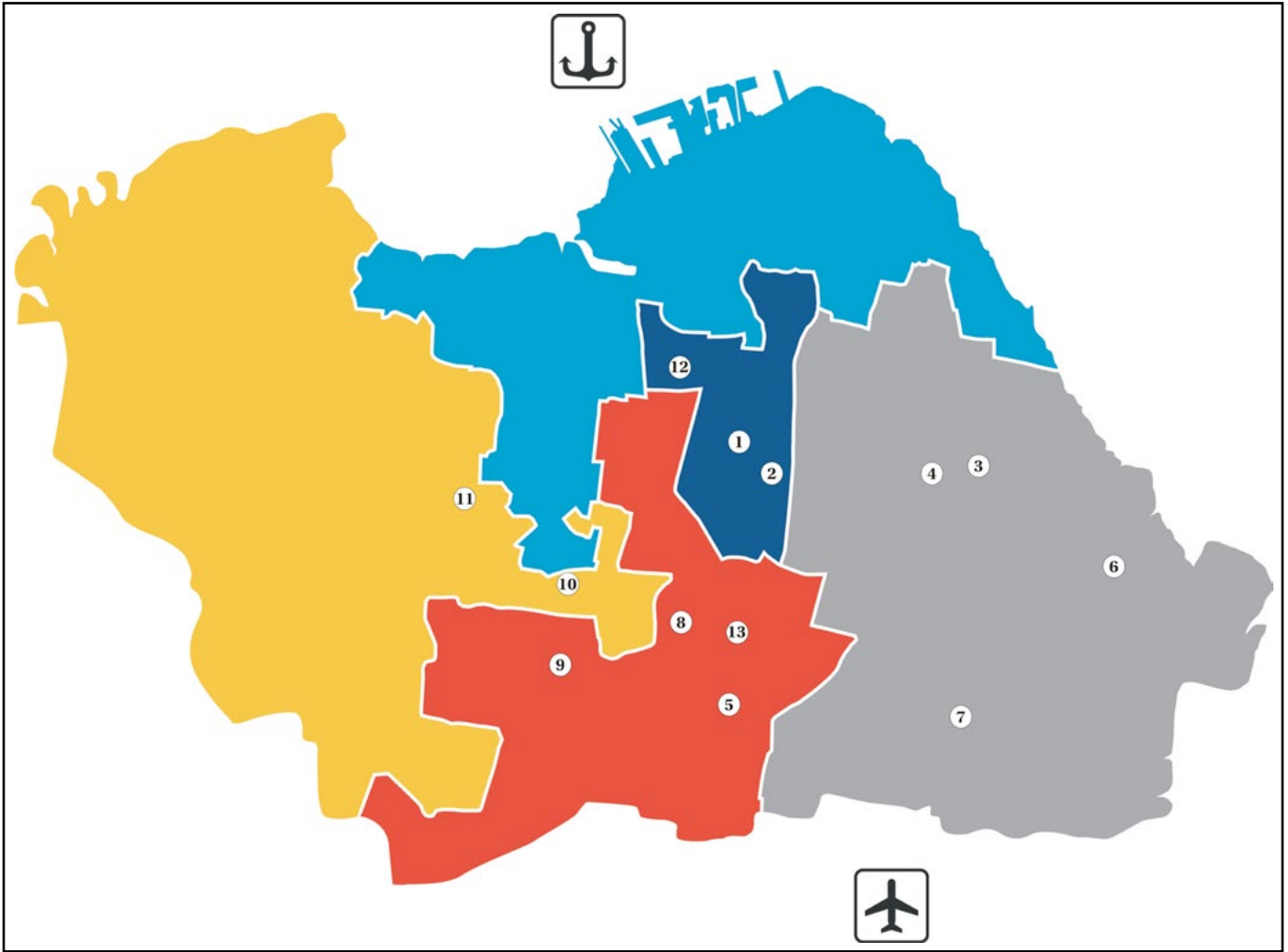


Source: Colliers International Indonesia - Research

New Supply Pipeline					
SHOPPING CENTRE	REGION	DEVELOPER	NLA (SQ M)	MARKETING SCHEME	DEVELOPMENT STATUS
<b>2017</b>					
Pakuwon Mall	West Surabaya	Pakuwon Jati	40,000	For Lease	Under Construction
The Central Gunawangsa Tidar	East Surabaya	Warna Warni Advertising	10,000	For Lease	Under Construction
<b>2018</b>					
Tunjungan Plaza VI	Central Surabaya	Pakuwon Jati	33,000	For Lease	Under Construction
Praxis	Central Surabaya	Intiland Development	9,000	For Lease	Under Construction
<b>2019</b>					
Ciputra World Surabaya 2	Central Surabaya	Ciputra	40,000	For Lease	Under Construction
Galaxy Mall 3	East Surabaya	Sinar Galaxy Group	40,000	For Lease	Under Construction
<b>2020</b>					
Grand Sungkono Lagoon	South Surabaya	Pembangunan Perumahan	15,000	For Lease	In Planning
The Frontage	South Surabaya	Panca Wira Usaha Jatim	30,000	For Lease	In Planning
Puncak CBD	West Surabaya	Surya Bumimegah Sejahtera	30,000	For Lease	In Planning
Grand Dharmahusada	East Surabaya	Pembangunan Perumahan	20,000	For Lease	In Planning
Puri City Shopping Mall	East Surabaya	Mahkota Berlian Cemerlang	10,000	For Lease	In Planning
Equator	East Surabaya	Sinarmas Land	20,000	For Lease	In Planning
The Groove	East Surabaya	Diparanu Rucitra	20,000	For Lease	In Planning

Source: Colliers International Indonesia - Research

Map of New Pipeline for Shopping Centre in Surabaya



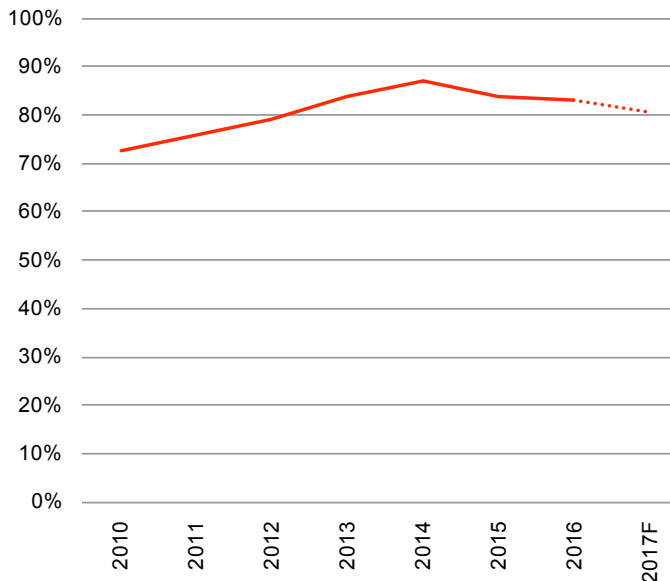
LEGEND		
1. Tunjungan Plaza VI	6. The Groove	11. Pakuwon Mall
2. Praxis	7. Puri City Shopping Mall	12. The Central Gunawangsa Tidar
3. Grand Dharmahusada	8. Ciputra World Surabaya 2	13. Equator
4. Galaxy Mall 3	9. Puncak CBD	
5. The Frontage	10. Grand Sungkono Lagoon	

Source: Colliers International Indonesia - Research

# Performance

## Demand and Occupancy

### Occupancy Rates



Source: Colliers International Indonesia - Research

Despite showing improving HoH in 2016, occupancy was recorded lower than that of the previous year. Newly operating shopping centres caused occupancy to drop as of H1 2016. Occupancy climbed slightly and stood at 83.2% as of H2 2016, thanks to the performance of a newly operating Tunjungan Plaza V in Central Surabaya. This shopping centre also helped bring the average occupancy at 92% and increasing 4% YoY in Central Surabaya.

Based on area, Central Surabaya had the highest occupancy rate, whilst other areas in Surabaya were recorded between 70% and 85% in 2016. Conversely, since it announced that it will be refurbished in the previous year, Hi-Tech Mall maintained larger vacant spaces and caused the average occupancy down significantly in North Surabaya.

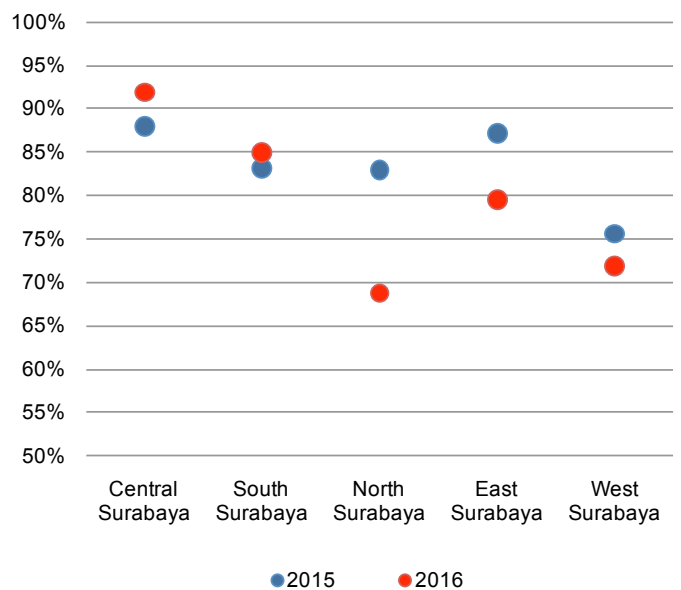
Nevertheless, Surabaya is expected to become the shopping destination particularly for people from eastern

Indonesia. There is a forecasted increase in purchasing power and in the number of visitors, which will likely lure more branded tenants to open in Surabaya, as a result of the limited available spaces at upper class shopping centres in Surabaya. The number of visitors based on the number of cars at upper class shopping centres was currently recorded at 3,000 and up to 6,000 cars, and even up to 10,000 cars during the weekend. This could attract landlords or developers to transform tenancy mix particularly at upper class shopping centres in Surabaya.

Some new tenants currently opened, the latest of which are in the Farmers Market that opened in Grand City. In addition to this supermarket, most of the newly opened tenants came from fashion and food and beverages.

Surabaya will see larger additional supply and it is forecasted to bring a large impact in occupancy in 2017. Nevertheless, future shopping centres have already secured committed tenants to boost projected occupancy to improve from 2016.

### Occupancy Rates in Different Region of Surabaya



Source: Colliers International Indonesia - Research

### Newly Opening Tenants in 2016

SHOPPING CENTRE	NAME OF TENANTS
Tunjungan Plaza	Omega Boutique, Stadium, BCBGMAXAZRIA, Tory Burch, Cotton On, DKNY, Rotelli, Lacoste, Burger King
Ciputra World Surabaya	Et Cetera, Salt n Pepper, Victoria's Secret, Manzone, Yoshinoya, Justice
Grand City	Farmers Market
Marvell City	Factory Store, CGV Blitz, Electronic Solution, Fun World, Lotte Hypermarket
City of Tomorrow	Maxx Coffee
Galaxy Mall	Hanji Restaurant, Sumoboo, Bayu Buana, Footgear, My Hola Batik, Tous Le Jours

Source: Colliers International Indonesia - Research

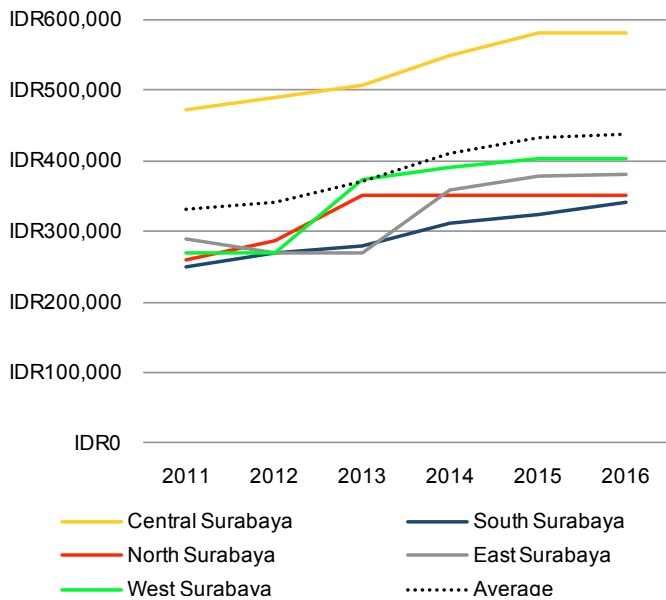
## Commitment Tenant at Existing and Future Shopping Centre in Surabaya

SHOPPING CENTRE	NAME OF TENANTS
Pakuwon Mall	Lotte Hypermarket, ZARA, SOGO, Bershka, Pull & Bear, Lacoste, Mango, Pandora, Guess, Burger King, Pizza Hut
Tunjungan Plaza VI	H&M, Uniqlo, Omega, Forever 21, Marks and Spencer
The Central Gunawangsa	Lion Superindo, My Gym, Nang Family Karaoke
Lenmarc	Transmart Carrefour, Trans Studio Mini
Praxis	Celebrity Fitness
Mall at Grand Sungkono Lagoon	Cinemaxx
Mall at Grand Dharmahusada	Cinemaxx

Source: Colliers International Indonesia - Research

## Rental Rates

### Average Asking Base Rental Rates in Different Regions



Source: Colliers International Indonesia - Research

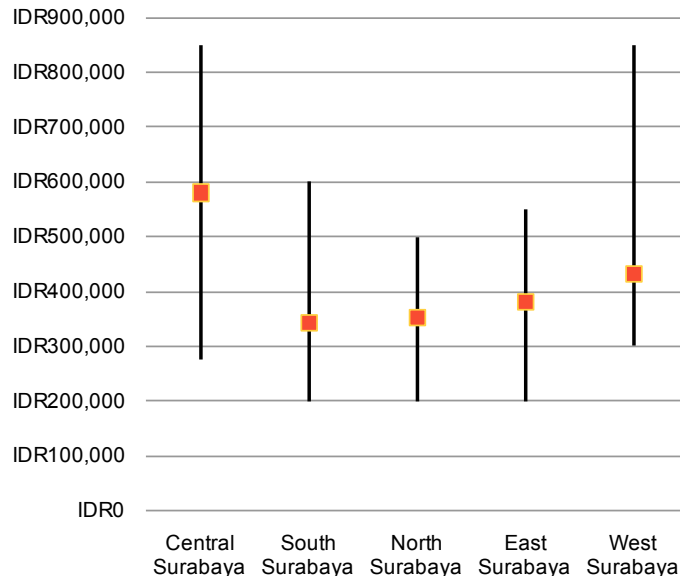
An uncertain economy will probably dampen consumer spending. As a result, landlords currently preferred to secure occupancy performance than increase asking rent. The average asking rents for all shopping centre classes was currently recorded at IDR438,178/sq m/month as of H2 2016.

Retail sales are expected to improve by the peak year-end holiday and festive sales season. However, landlords will remain flexible and realistic during rental negotiations. This could lead to a further softening of shopping mall rents in 2017.

Based on mall grade, upper class shopping centres still bring significant impact on average asking rents in Surabaya. These upper class shopping centres maintained their asking rents relatively to stabilise between IDR400,000 and IDR850,000/sq m/month. Other upper class shopping centres are also expected to begin operation in 2017. The average asking rent is forecasted to increase despite marginally in 2017.

Based on area, Central Surabaya maintained the highest asking rents in Surabaya. Most shopping centres offer the rents above market rates. However, the average asking rents were recorded relatively flat YoY. Asking rents were also recorded to stabilise at other areas, except South Surabaya. A shopping centre that stopped operation helped the average rent to grow 5% YoY in South Surabaya.

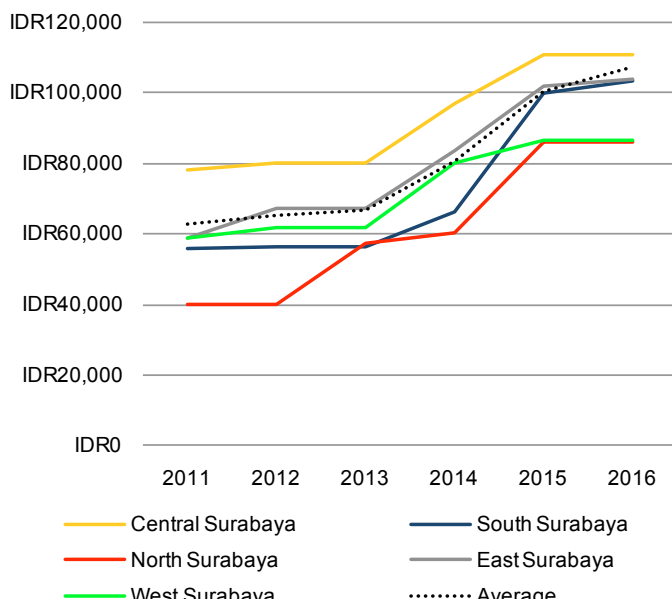
### The Range of Asking Rent in Different Regions



Source: Colliers International Indonesia - Research

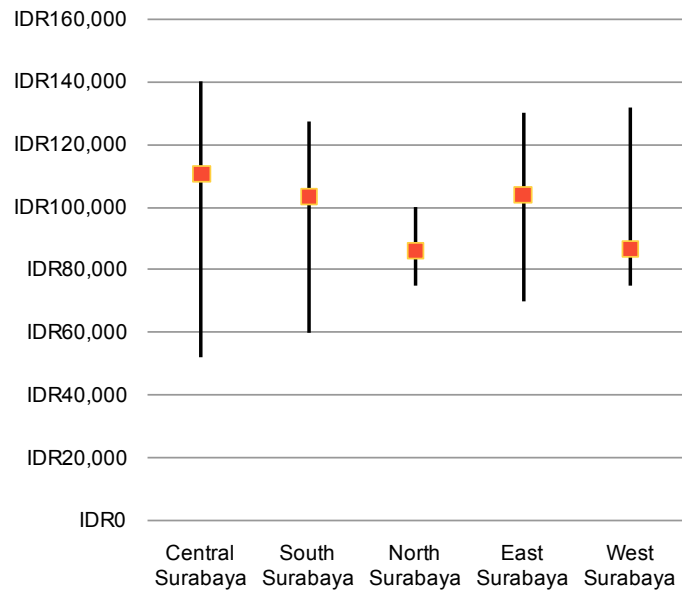
## Service Charge

### Average Service Charge in Different Regions



Source: Colliers International Indonesia - Research

### The Range of Service Charge in Different Regions



Source: Colliers International Indonesia - Research

Service charge climbed significantly in H2 2016 after moving very moderately from 2015 to H1 2016. Some shopping centres raised their service charges between IDR10,000 and IDR30,000 from the previous semester. These shopping centres increased the average service charge to IDR106,556/sq m/month as of H2 2016, which climbed 6% YoY.

The other existing shopping centres will potentially adjust and bring projected service charge to increase in 2017. A projected increase in service charge will likely be contributed by future shopping centres in 2017.

## Concluding Thought

Surabaya is expected to become a shopping destination. Supported from landlords to bring in newer and bolder retail concepts.

Big players / developers will still control the retail market in Surabaya in terms of supply and tenancy mix. Branded retailers are mainly interested to open their stores in shopping centre developed by well-known developers.



# Hotel Sector

Ferry Salanto Senior Associate Director | Research

**The pickup moment in H2 2016 was a bit late due to Ramadan and Eid al-Fitr, which happened during the end of H1 and early H2 2016.**

## Forecast at a glance



### Supply

Hotel supply in Surabaya won't be as much as in the previous years. Three-star hotels are dominating the upcoming supply, followed by 4-star hotels. Regardless, the current situation will impact ongoing and upcoming projects.



### Demand

The economic condition is the biggest factor that may determine the demand. A better economic condition may create potential demand for the hotel sector in Surabaya.



### Performance

Hotel performance experienced a depression. With the recent market condition, the performance of the hotel sector in Surabaya tends to decline. The unbalanced growth between supply and demand has a significant effect for this condition.

## Hotel Supply

### Starred Hotel

During H2 2016, there were only two new hotel projects in Surabaya, providing a total of 654 rooms or 42% of total new rooms available during 2016. The two new hotels are Fairfield by Marriott Surabaya (4-star hotel), located in Jalan Mayjen Sungkono, South Surabaya and Vassa Luxury Hotel (5-star hotel) in Jalan HR Muhammad, West Surabaya. The total number of hotel rooms in Surabaya in 2016 represents an 18% decrease from the total rooms in 2015.

The number of new hotel constructions has been quite significant in the last few years. Coupled with low visitors, the average occupancy level of hotels in Surabaya has yet to recover. Likewise, for the past two years, hotel construction activity in Surabaya has slowed down. Among several factors are the increase in material cost which also pushed landlords to evaluate construction cost. This might have an implication on the delay in project delivery. In some cases, there were several projects that have already started construction but encountered problematic permit issues which forced the developers to halt construction. The developer will reassess the plan to build a new hotel amidst the slow performance of the hotel market in Surabaya.

Central Surabaya is identical to the Central Business District of the city where most business activities are concentrated. As a business hub, the Central Business District has been the location of many hotels in Surabaya. This year, most of the newly operating hotels are located in Central Surabaya. Going forward, this region will continue to see more new hotels being built.

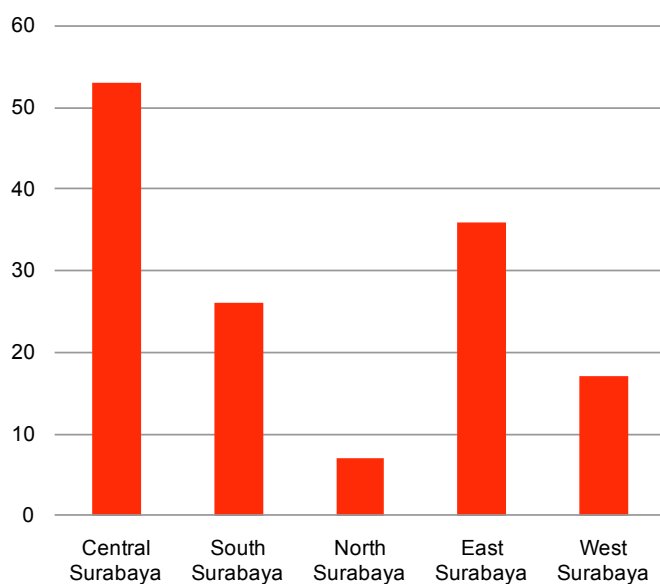
Hotel development is also moving toward East and South Surabaya due to the road infrastructure factor, namely, the MERR – Middle East Ring Road and the proximity to the airport in the outer south of Surabaya (Sidoarjo City).

## Newly Operating Hotel in Surabaya During 2016

HOTEL NAME	STARRED RATING	STR CHAIN SCALE RATE	LOCATION	REGION	# ROOM	OPENING TIME
Swiss-Belinn Tunjungan	3-star	Economy Class	Tunjungan	Central Surabaya	190	H1
Premier Inn Juanda	3-star	Economy Class	Basuki Rahmat	Central Surabaya	129	H1
Ayola La Lisa - Nginden	3-star	Not define yet	Jl Raya Nginden No. 82	West Surabaya	121	H2
Total 3-star hotel rooms					440	
Mercure Grand Mirama (extention)	4-star	Upper Mid-scale Class	Jl Raya Darmo	South Surabaya	133	H1
Four Points by Sheraton Surabaya	4-star	Up-scale Class	Jl Embong Malang	Central Surabaya	293	H1
Aria Centra Hotel	4-star	Undefined	Ade Irma Suryani	Central Surabaya	173	H1
Fairfield by Marriott Surabaya	4-star	Upper Mid-scale Class	Jl Mayjend Sungkono no. 178	South Surabaya	270	H2
Total 4-star hotel rooms					869	
Vassa Luxury Hotel	5-star	Undefined	Jl HR. Muhammad No.31	West Surabaya	384	H2
Total 5-star hotel rooms					384	
Total rooms					1,693	

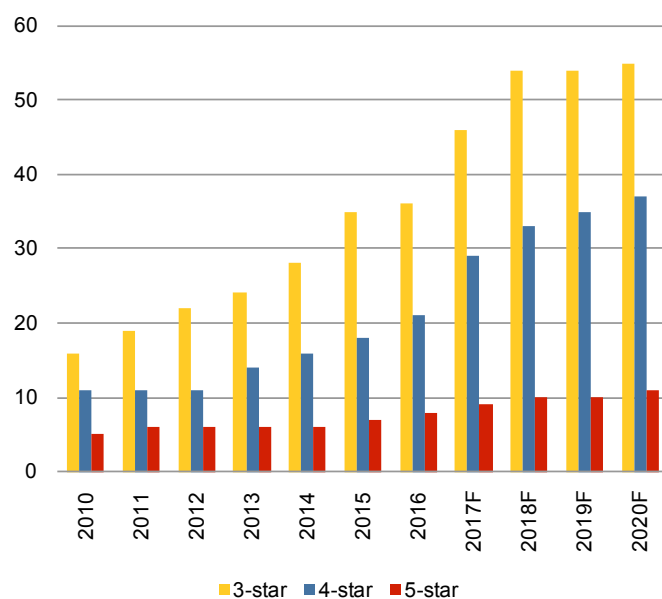
Source: Colliers International Indonesia - Research

## Distribution of the Hotels Location in Surabaya (by Number of Project)



Source: Colliers International Indonesia - Research

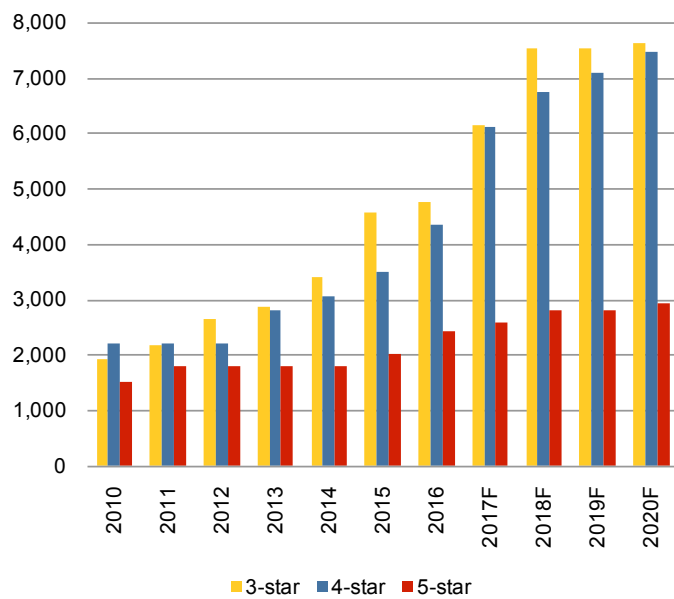
## Cumulative Supply of Star-rated Hotel Projects in Surabaya



Source: Colliers International Indonesia - Research

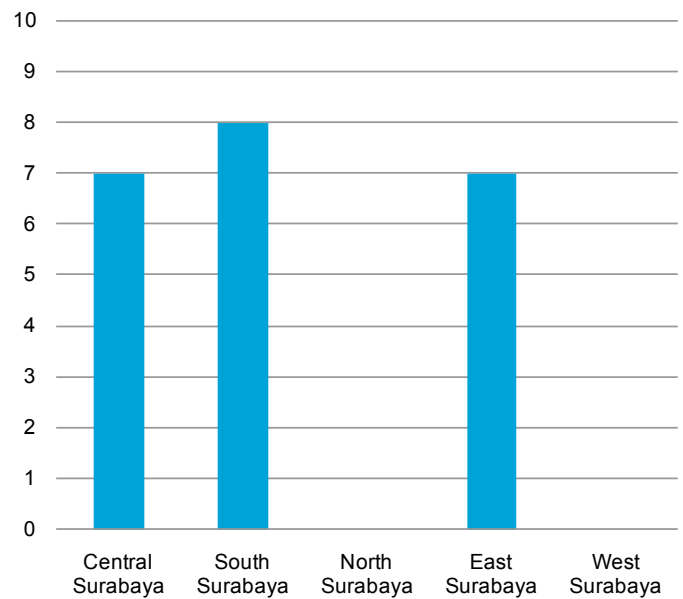


## Cumulative Supply of Star-rated Hotel Rooms in Surabaya



Source: Colliers International Indonesia - Research

## Distribution of the Future Hotels in Surabaya (by Number of Projects)



Source: Colliers International Indonesia - Research

New Pipeline							
HOTEL NAME	STARRED RATING	STR CHAIN SCALE RATE	LOCATION	REGION	ROOMS	PROJECT STATUS	PROJECTED COMPLETION TIME
The Frontage	3-star	Undefined	Ahmad Yani	East Surabaya	82	Under construction	H2 2017
I&M Hotel	3-star	Undefined	Argopuro, Sawahan	South Surabaya	142	Under construction	H2 2017
Goldvitel Hotel	3-star	Undefined	Basuki Rahmat	Central Surabaya	120	Under construction	H1 2017
Prime Biz Hotel	3-star	Undefined	Gayung Kebonsari	South Surabaya	162	Under construction	H1 2017
Namira Syariah	3-star	Undefined	Jl Wisam Pagesangan	South Surabaya	142	Under construction	2017
One Galaxy Hotel	3-star	Undefined	MERR II C	East Surabaya	110	Under construction	H2 2018
Grandika Injoko Hotel	3-star	Undefined	Gayung Kebonsari	South Surabaya	150	Under planning	2018
Puncak Dharmahusada	3-star	Undefined	MERR II C	East Surabaya	400	Under construction	2018
Continent My Tower - Rungkut	3-star	Undefined	Rungkut	East Surabaya	134	Under construction	2018
Puncak CBD Hotel	3-star	Undefined	Wiyung	South Surabaya	180	Under construction	2018
Yello - Embong Sawo	3-star	Undefined	Embong Sawo	Central Surabaya	171	Under construction	2018
Total rooms 3-star hotels					1,793		
Citadines @Marvell City	4-star	Upper Midscale Class	Ngagel	South Surabaya	280	Under construction	1H 2017
Platinum Hotel	4-star	Undefined	Tunjungan	Central Surabaya	200	Under planning	2H 2017
Novotel Hotel	4-star	Upscale Class	The Samator Superblock	East Surabaya	172	Under construction	2017

continued

HOTEL NAME	STARRED RATING	STR CHAIN SCALE RATE	LOCATION	REGION	ROOMS	PROJECT STATUS	PROJECTED COMPLETION TIME
<i>continuation</i>							
Great Hotel	4-star	Undefined	Diponegoro	South Surabaya	90	Under planning	2017
Mercure @Praxis	4-star	Upscale Class	Embong Sonokembang	Central Surabaya	288	Under construction	2017
Grand Dafam Kayun	4-star	Midscale Class	Kayon	Central Surabaya	169	Under construction	2017
Swiss-Belhotel Darmo Surabaya	4-star	Upscale Class	Darmo	Central Surabaya	140	Under construction	2017
Howard Johnson	4-star	Economy Class	Ahmad Yani	South Surabaya	170	Under construction	H2 2017
Aryaduta	4-star	Upscale Class	Gubeng	East Surabaya	180	Under planning	1H 2018
Total rooms 4-star hotels					2,109		
Courtyard Marriot Surabaya	5-star	Upscale Class	Jl Pemuda	Central Surabaya	180	Under construction	2017
Signature Gallery - Hilton Hotel	5-star	Undefined	Gubeng	East Surabaya	200	Under planning	2018
Total rooms 5-star hotels					380		
Total Rooms					4,282		

Source: Colliers International Indonesia - Research

## Budget Hotel

From the newly operating budget hotel class Max-One Dharmahusada in East Surabaya, there are 102 rooms. Another new hotel is Amaris Margorejo in South Surabaya, which added 146 rooms, for a total of 248 new additional rooms this semester

and making the overall rooms of all operating budget-class hotels reach 3,104.

The full-year supply review suggested that the number of new budget hotels in Surabaya declined by 48% compared to the same period in 2015.

Newly Operating Budget Hotel in Surabaya During 2016						
HOTEL NAME	STARRED RATING	STR CHAIN SCALE RATE	LOCATION	REGION	# ROOM	OPENING TIME
POP! Hotel Diponegoro - Surabaya	Budget	Economy Class	Jl Raya Diponegoro, Darmo	South Surabaya	116	H1
Evora Hotel	Budget	Undefined	Jl Raya Menur	Central Surabaya	83	H1
Favehotel Rungkut	Budget	Economy Class	Jl Raya Kedung Asem, Rungkut	East Surabaya	176	H1
MaxOne Dharmahusada	Budget	Undefined	Dharmahusada	East Surabaya	102	H2
Amaris - Margorejo	Budget	Economy Class	Jl Margorejo Indah No 114-115	South Surabaya	146	H2
Aria Centra Hotel	3-star	Undefined	Ade Irma Suryani	Central Surabaya	173	H1
Fairfield by Marriott Surabaya	4-star	Upper Mid-scale Class	Jl Mayjend Sungkono no. 178	South Surabaya	270	H2
Total budget hotel rooms					623	

Source: Colliers International Indonesia - Research

Future Budget Hotel Development in Pipeline						
HOTEL NAME	STR CHAIN SCALE RATE	LOCATION	REGION	NO. OF ROOMS	PROJECT STATUS	PROJECTED COMPLETION TIME
Amaris Hotel Surabaya - Bintoro	Economy Class	Bintoro	Central Surabaya	120	Under construction	H1 2017
Moxy Hotel	Economy Class	Mayjend Sungkono	South Surabaya	110	Under construction	2017
Batiqa Hotel	Undefined	Darmo Kali	South Surabaya	140	Under construction	2017
Surabaya River View (SRV)	Undefined	Genteng	Central Surabaya	110	Under construction	2017
Ibis Budget Surabaya	Economy Class	Jl Raya Diponegoro	South Surabaya	153	Under construction	2018
Total budget hotel rooms				633		

Source: Colliers International Indonesia - Research

## Hotel Demand

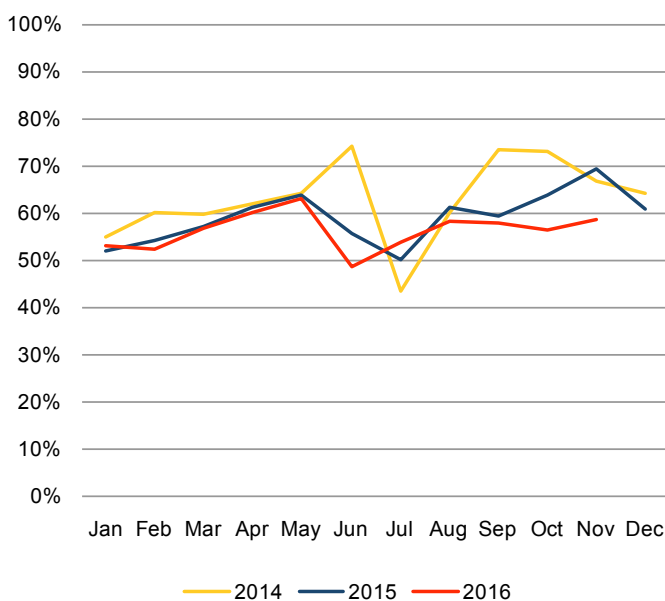
The characteristics of hotels in Surabaya are similar to those in Jakarta. As the centre of business hubs in eastern Indonesia, hotel performance in Surabaya is very likely determined by the business activity in the city. While business activity is very much determined by global economic performance, Surabaya, just like Jakarta, was impacted by the downturn in economy reflected by the declining investment value. Accordingly, this also impacted hotel performance in Surabaya, which translated into relatively low occupancy and room rate.

During H2 2016, hotel occupancy performance in Surabaya was somewhat volatile particularly from July to August, which was prone to increase, and from October to the year end, which tended to decline. In any business city, the downward trend in occupancy when approaching the year-end holiday is common as corporations reduce business activity. Furthermore, given the reduction in government spending and MICE activities, occupancy performance in Surabaya has yet to recover.

The pace of hotel supply has yet to equalise the demand for hotel rooms, and this has led to tight competition amongst hoteliers. Nonetheless, several areas like the downtown of Surabaya might see a better performance benefitting from the proximity to government offices and private corporations as well as other commercial entities.

## Performance

### Monthly Average Occupancy Rate in Surabaya



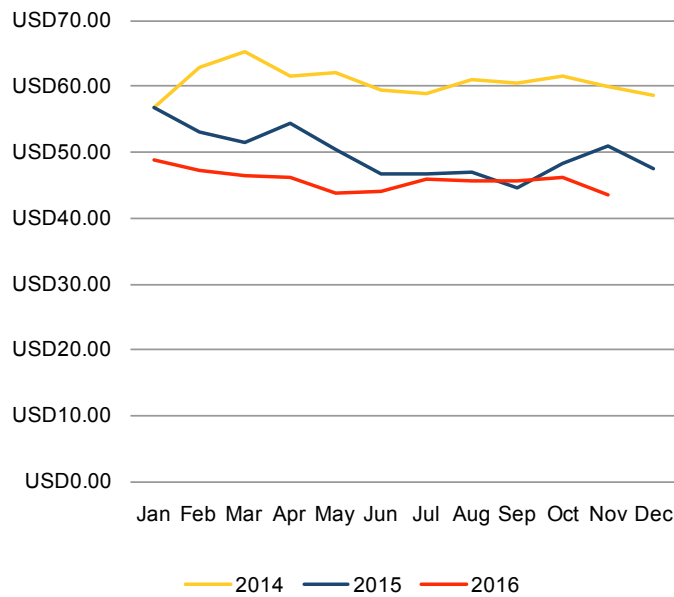
Source: STR Global

The above chart shows that hotel competition in Surabaya has become extremely high, particularly during the last three years. The average occupancy rates for 2014 and 2015 were relatively low at 66.7% and 69.4%, respectively. The AOR for 2016 was even lower with an average of 58.7%.

The AOR in November was somewhat high. When we prepared this report, the data for December were not available yet, but we anticipate a mild drop in AOR concerning the year-end pattern.

The Surabaya hotel and restaurant association (PHRI - Perhimpunan Hotel dan Restoran Indonesia) urged the local government to release hotel moratorium particularly in protecting existing and operating hotels from fierce competition, which has already led to a price war. This is good for guests.

## Monthly Average Daily Rate in Surabaya



Source: STR Global

The declining ARR of hotels in Surabaya started in 2014. From the chart above, it is clearly seen that the ARR for 2015 was lower than the ARR for 2014. Likewise, the ARR for 2016 was relatively lower than in the previous year. The ebb of the ARR suggests that the hotel market needs a tightening in terms of hotel development permits. The last data in November indicated that the ARR figure at year end would drop, as seen from the pattern over the last two years.

Given the current supply and performance condition, hotel competition in 2017 will be much tighter. There are several regulations and issues that may affect hotel performance in Surabaya. The plan to increase minimum wage in Surabaya area, referring to the Circular Letter of the Ministry of Manpower in October 2016, would add to the operating burden of hoteliers.

President Joko Widodo issued Presidential Instruction number 4 year 2016 to address all government institutions to take austerity measures in cutting government spending. This includes saving operational money in an attempt to reach cost efficiency. This might affect government spending in accommodation, which may affect the decreasing cost in MICE activity.

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