

Ferry Salanto Senior Associate Director | Surabaya

Investor-type of buyers in Surabaya tends to be more responsive to the new property projects, especially those built by reputable developers. On the other hand, as buyers are currently more selective in spending their money particularly on apartment projects, the products that have strategic location, unique concept and offer flexible payment method are still able to thrive despite the current market condition.

On the other hand, regarding the apartment-for-lease market, although supply is increasing and tenant's budget continues to compress, the rental market has been very resilient and should stay at this level, even if more serviced apartment projects arrive. Furthermore, it is expected that rents will remain soft in the near term. Nevertheless, it may still take a few more quarters before rents start to show any broad based improvement. Thus, for H1 2018, rental rate may still be expected to hover around current levels.

Forecast at a glance



Demand

With the economic outlook in the next year to be up slightly from 2017's level to 5.3%, we expect the take-up rate of the apartment market in Surabaya to remain relatively stable at 82-84%.



Supply

Up to 2021, we expect the total new strata-title apartment supply to reach 33,535 units or additional new supplies at an average of 8,384 units per annum, which is 164% higher than the average of the last five years. In addition, 56.3% of the total units will target the middle-lower segment.



Rent

In Surabaya, the short-term lease would be the demand generator for apartments for lease. We projected the average asking rental rate of apartments for lease to be relatively stable until H1 2018 amid the softer long-stay demand.



Price

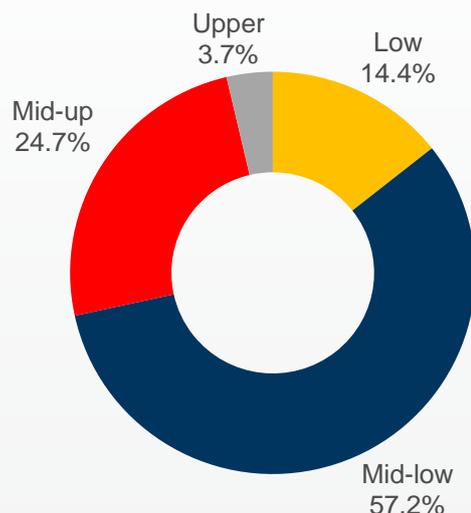
Whilst strata apartments continue to face challenges from stiff market competition, we expect the average asking price to grow by 5-6% in the end of 2018.

Apartment for Strata-title

Supply

Three new apartment projects, with a total of 1,732 units, were officially handed over during H2 2017 and increased the total number of apartment units in Surabaya by 11% YOY to 30,619. The newly completed projects range from middle to upper market segment, but the overall apartment market in Surabaya is still dominated by middle-lower segment projects with 57.2%.

Apartment Segment Based on Number of Units



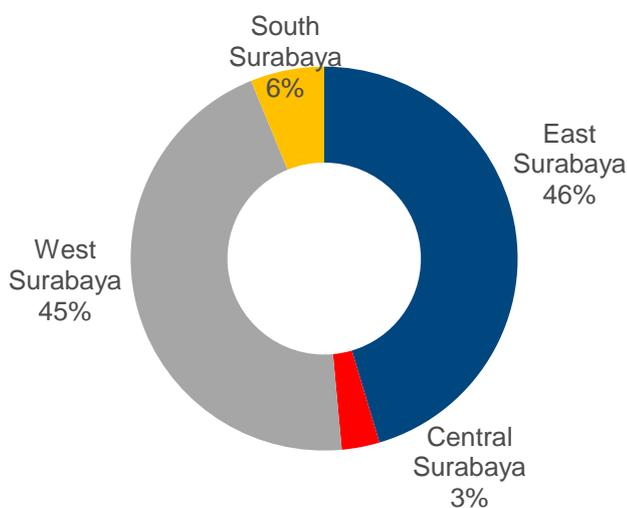
Source: Colliers International Indonesia - Research

NEW SUPPLY PIPELINE

APARTMENT	LOCATION	REGION	#UNITS	ASKING PRICE/SQ M
2020				
Biz Square Apartment	Jl. K. Abdul Karim	East Surabaya	400	IDR12,500,000
2021				
Eastcovia (Zaha Tower)	Jl. Kejawan Putih Tambak	East Surabaya	750	IDR12,550,000
Springville Residence (2 towers)	Jl. Raya Kedung Asem	East Surabaya	474	IDR9,800,000
The Tunjungan Boulevard	Jl. Tunjungan	Central Surabaya	292	IDR30,000,000
The Grand Stand	Jl. Raya Darmo Permai Selatan	West Surabaya	307	IDR16,500,000

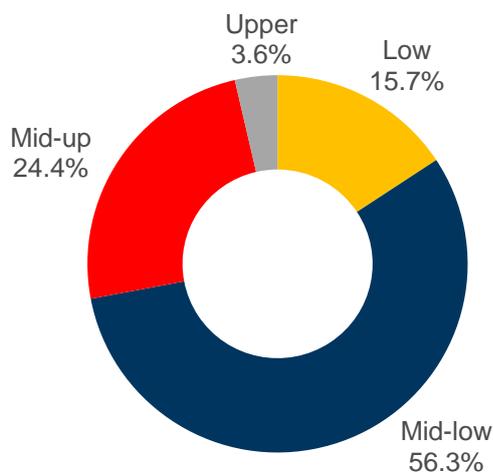
Source: Colliers International Indonesia - Research

Apartment Location Based on Number of Units



Source: Colliers International Indonesia - Research

Future Apartment Segment Based on Number of Units (2018E – 2021E)



Source: Colliers International Indonesia - Research

A total of 33,535 new strata-title apartment units are now in the pipeline and scheduled for completion between 2018 and 2021, reflecting an average of 8,384 additional units per annum. These upcoming projects will be mainly concentrated in East (50.4%) and West Surabaya (29.7%). The domination of middle-lower segment apartments over the next four years is aimed to target students and first home buyers.

Demand

Overall, we do not see much improvement in the demand side during the second semester of 2017. The overall demand remains patchy. Enquiry remains strong for new apartment projects in excellent locations, built by reputable developers or those that offer a bunch of attractive benefits such as long instalment scheme, free service charge for a certain period and special price discounts.

The profile of buyers in Surabaya is quite similar to that in Jakarta. High-profile investors in Surabaya tend to be more responsive to new property projects, especially those constructed by reputable developers. In addition, with the end of the tax amnesty, buyers tend to purchase apartments without fear of prosecution in relation to a previous tax period. The typical high-profile investors generally opt hard cash or cash instalment payment scheme for existing properties, which has happened in some apartments located in Central Surabaya.

Despite having projects that performed well in sales, the excess supply of new apartment projects has exerted downward pressure on the average take-up rate in West and East Surabaya.

Average Take-up Rate

	H2 2016	H1 2017	H2 2017	HOH	YOY
West Surabaya	88.0%	88.3%	87.8%	-0.5%	-0.2%
East Surabaya	80.1%	78.7%	80.3%	1.6%	0.2%
South Surabaya	70.6%	81.3%	83.0%	1.8%	12.5%
Central Surabaya	64.2%	63.0%	67.6%	4.6%	3.4%

	H2 2016	H1 2017	H2 2017	HOH	YOY
Existing projects	97.6%	97.4%	97.9%	0.5%	0.3%
Under-construction projects	67.2%	67.4%	68.6%	1.2%	1.4%
Total	81.2%	81.3%	82.4%	1.1%	1.2%

Source: Colliers International Indonesia - Research

Asking Price

The overall increment in the asking prices during the reviewed period is mainly driven by the addition of newly launched apartment projects with a higher price than the average market into our calculation, as well as the continuing construction works. Furthermore, as at H2 2017, the average asking price of apartments in Surabaya increased by 1.6%, compared to the prior semester or 4.2% YOY, to an average of IDR20.4 million/sq m.

Average Asking Price (in IDR/SQ m) of Apartment in Surabaya, Based on Region

Region	H2 2016	H1 2017	H2 2017	HoH	YoY
West Surabaya	20,688,296	20,868,577	21,398,894	2.5%	3.4%
East Surabaya	15,853,113	16,201,929	16,465,676	1.6%	3.9%
South Surabaya	17,458,480	18,025,147	18,025,147	0.0%	3.2%
Central Surabaya	28,351,203	29,123,333	29,550,900	1.5%	4.2%

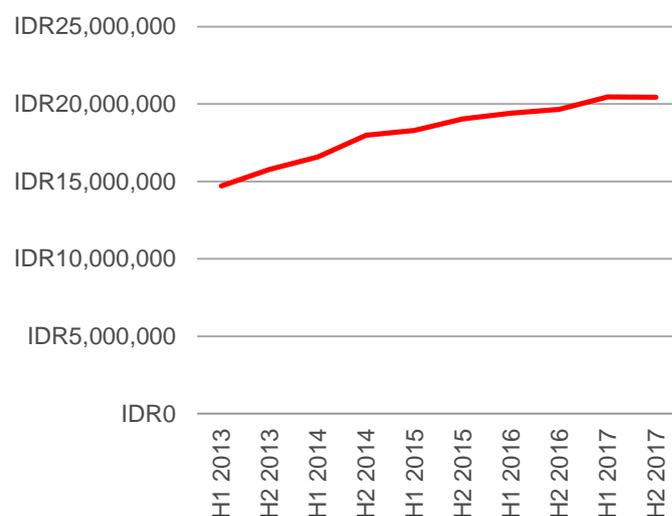
Source: Colliers International Indonesia - Research

Individual investors signalled that they are still keen to committing to purchase, but are still concerned about the capital gain and delivery time of the project.

Ultimately, if developers and agents play their roles well next year, which we believe they will, we are of the opinion that sales activity will grow, and thus the overall

price may still eke out a return; not high, but still enough turnaround of 5-6% gain YOY.

Average Asking Price of Apartment in Surabaya



Source: Colliers International Indonesia - Research

Apartment for Lease

Along the second half of 2017, Vasa Hotel Surabaya located at Jl. HR Muhammad, West Surabaya opened 42 serviced apartment units, offering one-bedroom to three-bedroom types of units ranging from 66 to 132 sq m. With the operation of this project, the total supply of apartments for lease in Surabaya increased by 6.5% to 691 units. The existence of this newly operating apartment continues to underline that West Surabaya remains to be the favourite location for apartments for lease, particularly for serviced apartments.

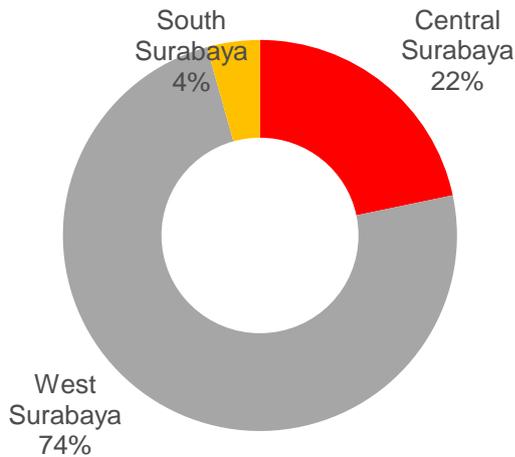
NEW SUPPLY PIPELINE

APARTMENT	LOCATION	REGION	YEAR OF OPERATION	#UNITS
Oakwood at One East Residence	Jl. Raya Kertajaya Indah	East Surabaya	2018	144
Graha Golf Serviced Apartment	Graha Family	West Surabaya	TBA*	TBA*

*TBA: to be announced

Source: Colliers International Indonesia - Research

Location of Apartment Based on Number of Units



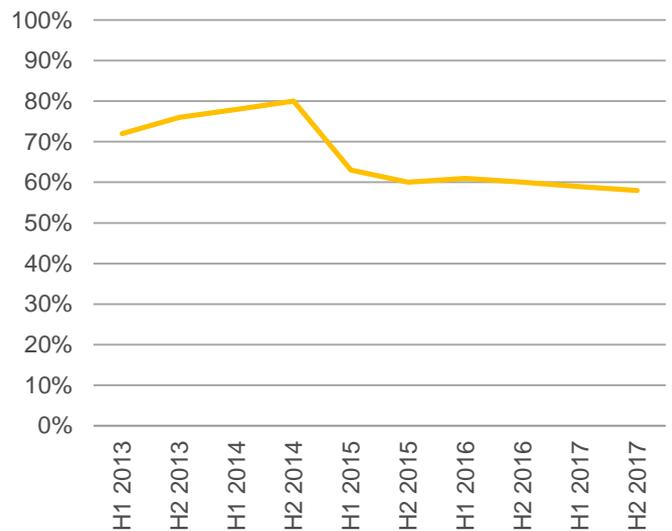
Source: Colliers International Indonesia - Research

Occupancy

Overall, occupancy of apartments for lease in Surabaya was slightly down by 1.4% to 57.8%, compared to the previous semester. The newly operating serviced apartment units from Vasa Hotel Surabaya lowered the overall occupancy calculation. Furthermore, the slowdown of new enquiries from long-stay guests has also contributed to the overall sluggish performance of apartments for lease in Surabaya.

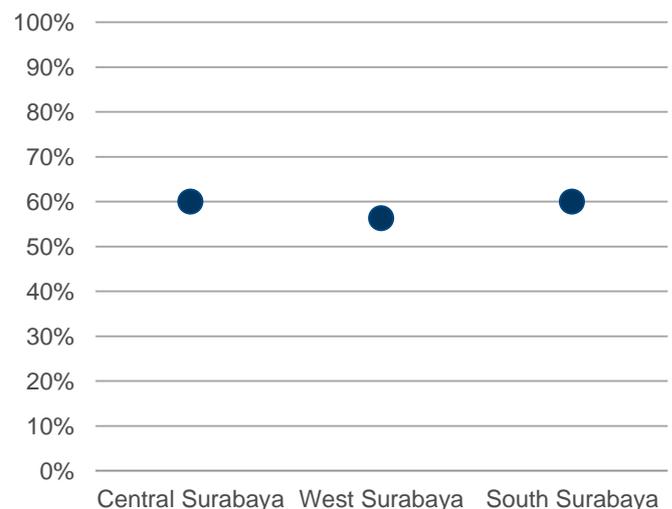
Nonetheless, we are of the opinion that occupancy rate should be higher going forward, given the fact that Surabaya is the second-largest city after Jakarta and the busiest in eastern Indonesia.

Occupancy Rate



Source: Colliers International Indonesia - Research

Average Occupancy Rate Based on Region

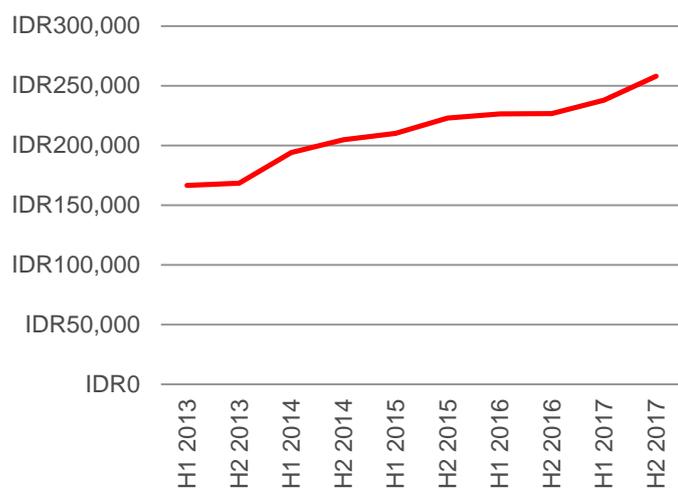


Source: Colliers International Indonesia - Research

Rental Rate

The average asking rental rates for serviced apartment in Surabaya reached IDR257,839/sq m/month, showing an increase of 8.4% compared to the previous semester or 13.8% YOY. The opening of a new upscale serviced apartment, Vasa Hotel Surabaya, which set a higher rent than the overall market, has changed the overall rental figure in the region. In addition to that, rental adjustments have been implemented in some apartment projects in line with inflation rate.

Average Rental Rate



Source: Colliers International Indonesia - Research

Concluding Thought

The short-term outlook projection for apartments in Surabaya may not be rosy. However, the following issues should be taken into account in envisaging the

For more information:

Ferry Salanto

Senior Associate Director
Research
+62 21 3043 6888
ferry.salanto@colliers.com

longer-term prospect of Surabaya's apartment market.

- > Surabaya is the economic hub of eastern Indonesia. In our observation, most apartment buyers are businessmen coming from the eastern part of Indonesia.
- > There are at least 81 universities in Surabaya, creating a student market for apartments in the city. Surabaya has been a Mecca for quality higher education in eastern Indonesia.
- > Big-scale companies located in the surrounding cities in the cement, fertiliser, oil, gas, mining, smelter and many other industries create more jobs and pull intensive skilled labour for both locals and foreigners. This triggers the need for decent living accommodations that are relatively limited in the surrounding cities.
- > As a highly urbanised city with industries centralised in the city as well as homes for students, Surabaya is now progressing its transportation infrastructures to cope with the current heavy traffic.

Going forward, despite the better outlook of Indonesia in terms of ease of doing business and macro-economic condition in the next year, occupancy rates of serviced apartments will potentially experience intense competition from the newly built upscale strata-title apartments. We expect the average occupancy rate of apartments for lease in Surabaya to stay at 58-60% in 2018.

Contributors:

Hern Rizal Gobi

Manager | Research

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