

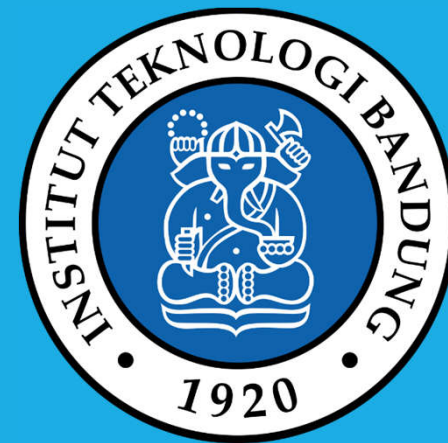
INTRODUCTION TO REAL ESTATE INVESTMENTS AND VALUE DETERMINANT FACTORS FOR APARTMENT PRODUCTS IN INDONESIA

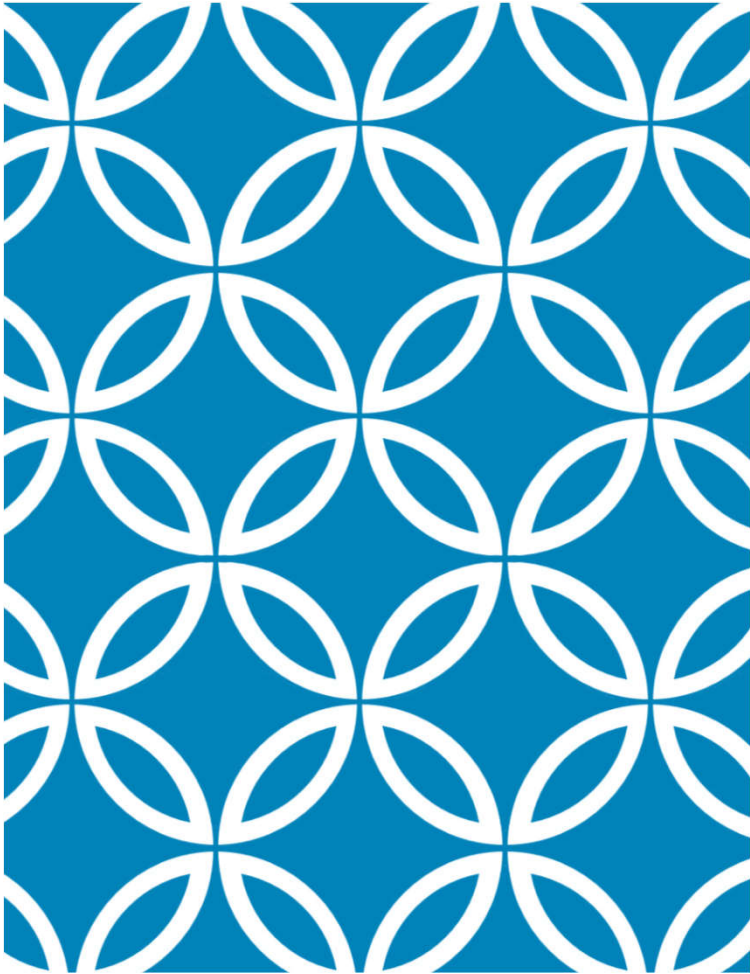
Bandung, 12 March 2019

Dr. Raden Aswin Rahadi

**School of Business and Management,
Institut Teknologi Bandung, Indonesia**

*Adapted from Teaching Materials by Prof. Markus
Greissler (California State University, Sacramento, USA),
Guest Lecture Presentation by Mr. Saldy Fitrianda
(Northstar Pacific & Partners) & Personal Scientific
Publication*





ABOUT ME

Brief Introduction

EDUCATIONAL BACKGROUNDS

Academic Qualifications

D.S.M in Science Management (Cum Laude), School of Business & Management, Institut Teknologi Bandung, Bandung, Indonesia, 2015.

M.B.A in Business Administration, *Fachhochschule Konstanz - Hochschule für Technik, Wirtschaft und Gestaltung*, Konstanz, Germany, 2009.

M.M in Management, Swiss German University, Serpong, Indonesia, 2009.

S.T in Architecture Engineering, Institut Teknologi Bandung, Bandung, Indonesia, 2003.

Professional Qualifications

R.F.A in Financial Planning, International Association of Registered Financial Consultants (IARFC), USA, 2015.

International NLP Basic Practitioner, National Federation of Neuro-Linguistic Programming (NFNLP), USA, 2014.

Q.W.P in Wealth Planner, IAFP Global Qualified Wealth Planner, Indonesia, 2012.

PROFESSIONAL EXPERIENCES

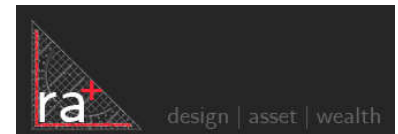
Faculty Member, School of Business and Management, Institut Teknologi Bandung (SBM-ITB), Bandung, Indonesia. 2017-now.

Senior Lecturer, School of Maritime, Business and Management, Universiti Malaysia Terengganu, Kuala Terengganu, Malaysia. 2016-2017.

Managing Partner, ra+ Consulting, Property, Bandung, Indonesia. 2010 – 2016.

Senior Associate, Northstar Pacific, Investment Banking, Jakarta, Indonesia. 2004 – 2010.

Junior Business Development Manager, PT. Bumi Serpong Damai Tbk., Property Developer, Serpong, Indonesia. 2003 – 2004.



RESEARCH INTERESTS



Residential Market



Real Estate &
Property
Development



Real Estate &
Property
Valuation



Financial Planning



Consumer
Behavior &
Preferences



Entrepreneurship



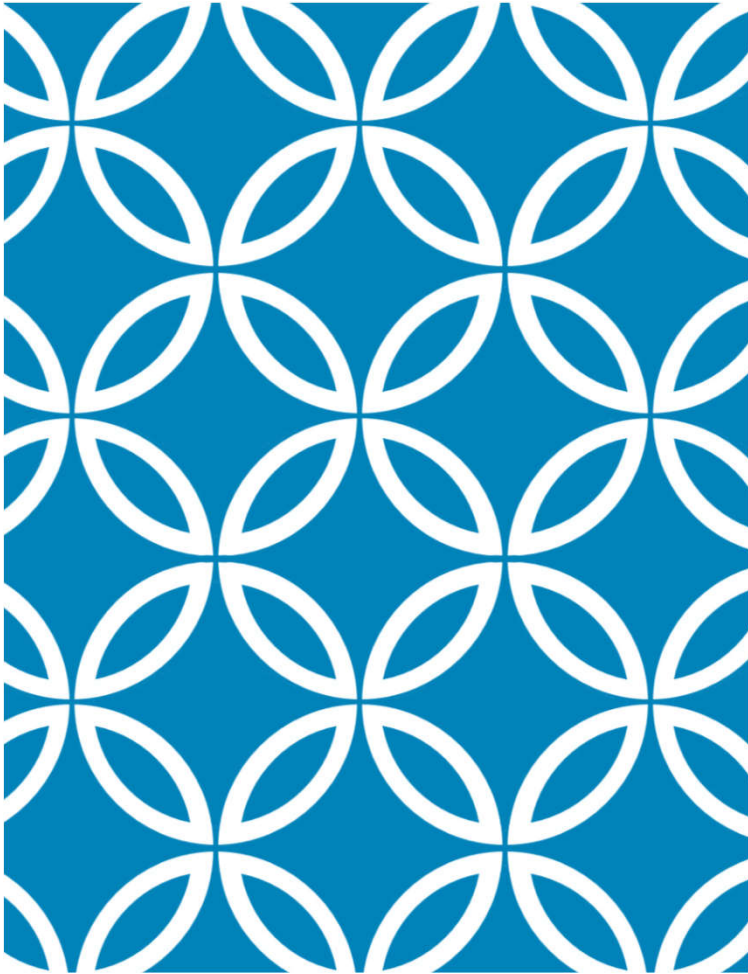
e-Commerce



City and Quality
of Life
Improvements



Financial Literacy



REAL ESTATE INVESTMENTS

Definition & Concept

DEFINITION OF REAL ESTATE

Real Estate is artificially delineated space references to a fixed point on the surface of the earth with a fourth dimension of time. It is built to house an economic activity that is subject to cultural preferences and restricted by the public infrastructure.

CONCEPTS

Space-Time Product

Real estate is a space-time product, that is it generates income over time in exchange for the use of space. Examples: apartments, football tickets, wedding receptions

CHARACTERISTICS

The Real Estate Market
Characteristics:

- a) Highly Stratified, Local Markets
- b) Heterogeneous Product
- c) Private, not Public, Transactions
- d) Unsophisticated Investors
- e) Unorganized Market

PARTICIPANTS

1. BUILDER/DEVELOPER

2. SYNDICATOR

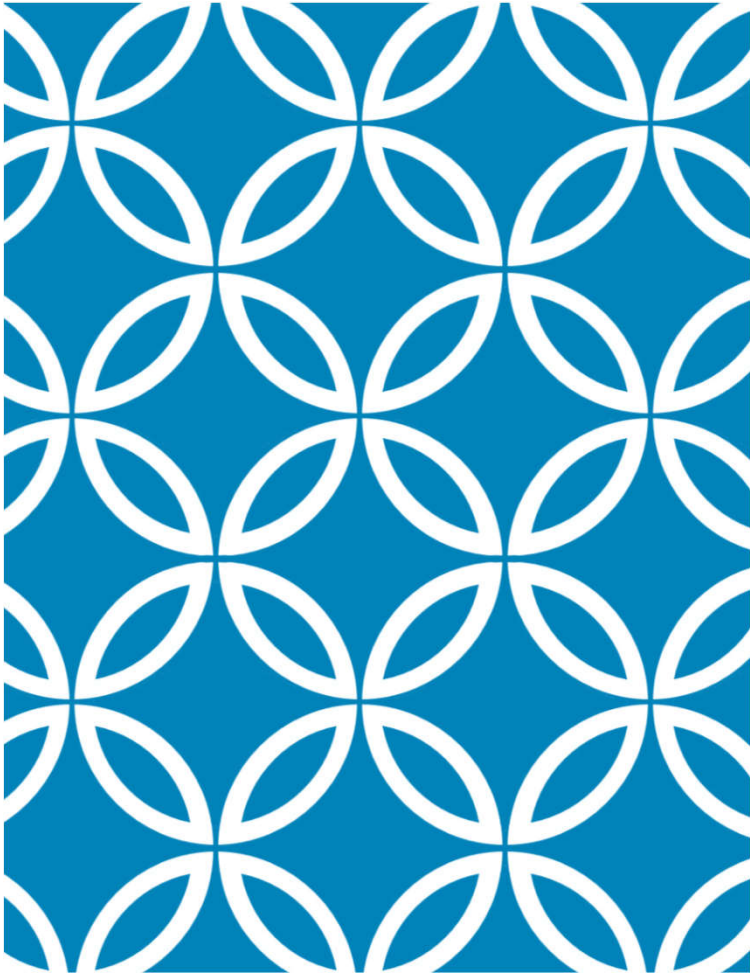
3. PROPERTY MANAGER

4. CONSTRUCTION LENDER

5. PERMANENT LENDER

6. MANAGING EQUITY INVESTOR

7. PASSIVE EQUITY INVESTOR



REAL ESTATE INVESTMENTS

Investing in Real Estate

1. Pride in
Ownership

2. Personal
Control

3. Self-use
and
Occupancy

4. Estate
Building

5. Security
of Capital

6. High
Operating
Yield

7. Leverage

8. Tax
Shelter

9. Capital
Appreciation

10. Portfolio
Diversification

INVESTOR MOTIVATIONS

INVESTING IN REAL ESTATE

Direct Real Estate Investments

- As the investor, you hold legal title to the property
- Your **home** as an investment
 - A place to live
 - A major asset of most households

DIRECT AND INDIRECT REAL ESTATE INVESTMENTS

TYPES OF REAL ESTATE INVESTMENTS

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graph TD; A[TYPES OF REAL ESTATE INVESTMENTS] --> B[DIRECT]; A --> C[INDIRECT]; B --> B1[YOUR HOME]; B --> B2[VACATION HOME]; B --> B3[COMMERCIAL PROPERTY]; B --> B4[RAW LAND]; C --> C1[REAL ESTATE SYNDICATES OR LIMITED PARTNERSHIPS]; C --> C2[REITS]; C --> C3[1ST AND 2ND MORTGAGES]; C --> C4[PARTICIPATION CERTIFICATES];
```

YOUR HOME
VACATION HOME
COMMERCIAL PROPERTY
RAW LAND

REAL ESTATE SYNDICATES OR LIMITED PARTNERSHIPS
REITS
1ST AND 2ND MORTGAGES
PARTICIPATION CERTIFICATES

ADVANTAGES OF REAL ESTATE INVESTMENTS

A possible **hedge against inflation**

Easy entry as a limited partner (ex. InvesProperti)

Limited financial liability— limited partners

No management concerns - REITs, mortgages

Financial leverage

- Use of borrowed funds for investment purposes, allows you to acquire a more expensive property than you could buy on your own

INVESTMENT DISADVANTAGES AND RISKS



1. Illiquid



2. Management



3. Depreciation of Value



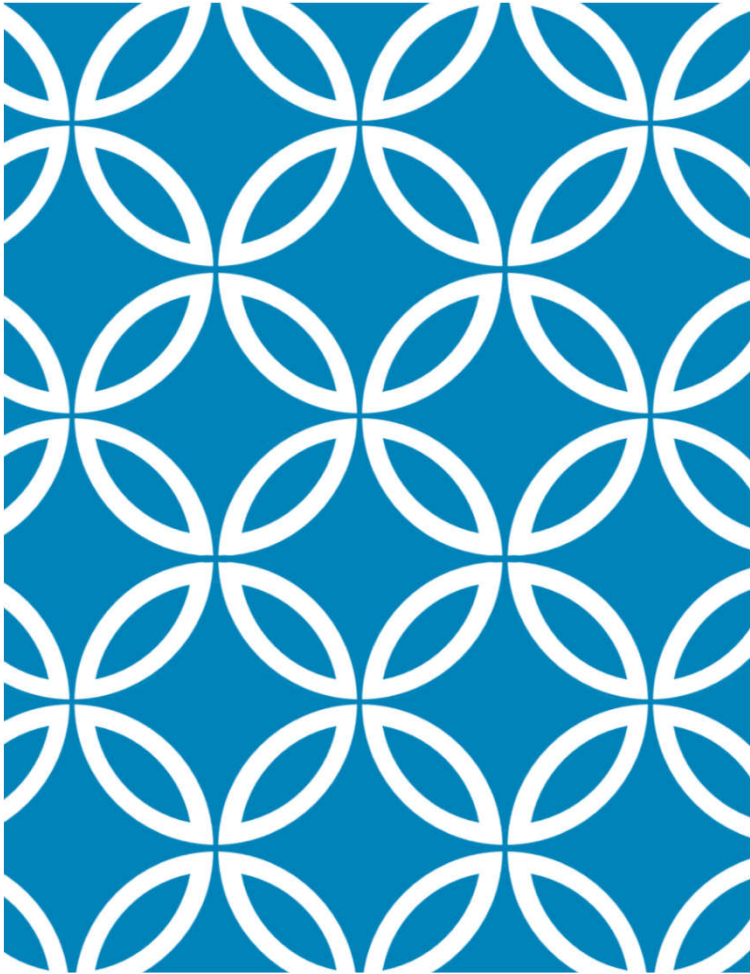
4. Government Controls



5. Real Estate Cycles



6. Legal Complexity



REAL ESTATE INVESTMENTS

Property Investment and Development

TYPES OF REAL ESTATE DEVELOPMENT

Brownfield

Greenfield

Sub-Division

Industrial

Residential

Commercial

Repositioning
and Re-
Development

BROWNFIELD

- In general, it refers to previously used land or areas of industrial or commercial facilities that are to be upgraded



Omaha Riverfront Brownfield Before



Omaha Riverfront Brownfield After

GREENFIELD

- It refers to undeveloped land in a city or rural area either used for agriculture, landscape design, or left to evolve naturally.
- It can be unfenced open fields, urban lots or restricted closed properties, kept off limits to the general public by a private or government entity.



SUB-DIVISION

- Subdivision is a property investment strategy which divides up a single piece of land into smaller pieces or lots, which can be developed (buildings on them) and sold separately.
- In order to succeed in sub-division projects, the development potential must be evaluated carefully and accurately, factoring location, development permissions, cost of development and local market conditions
- Partnering with experienced investors and developers will substantially increase the success rate of the sub-division projects as well as the maximum return on investment





INDUSTRIAL

Used for manufacturing and production



RESIDENTIAL

Used for living purposes

COMMERCIAL

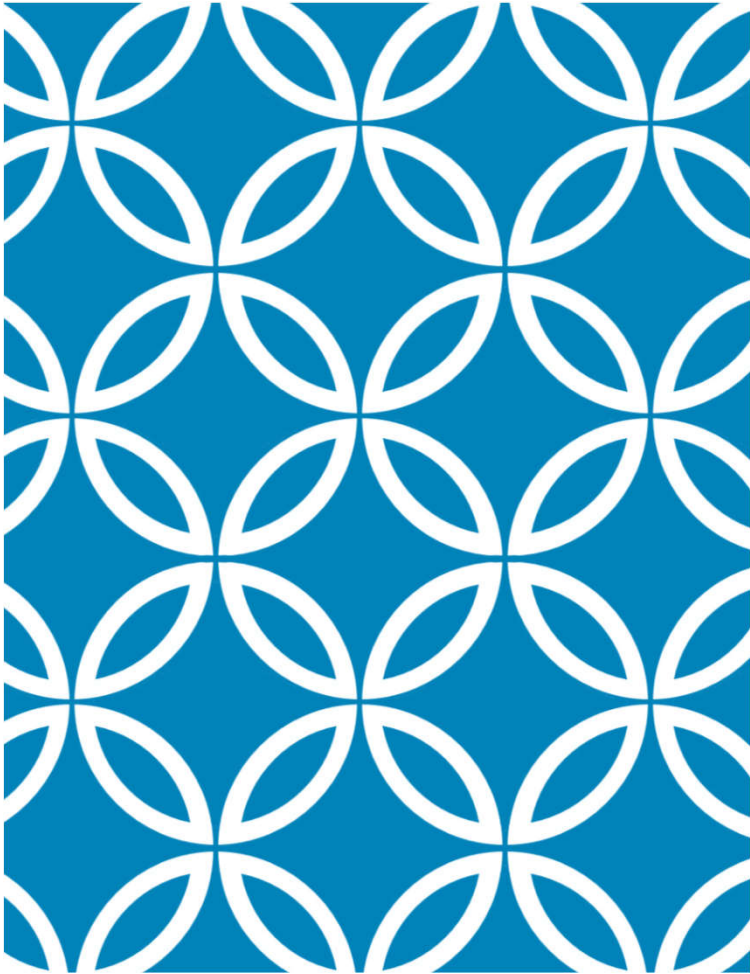
- Buildings or land developed to generate a profit, either from capital gain and/or rental income
- The businesses that rent in commercial real estate usually lease the space
- A developer/investor usually owns the building and collects rent from each business that operates there



REPOSITIONING AND RE-DEVELOPMENT

Repositioning and redevelopment projects can offer many advantages that new developments do not have. Every project is different, can save money on construction cost; faster to develop; have heritage and historical value; unique features and story; community value add; and increase land values of surrounding area





REAL ESTATE INVESTMENTS

Overview of Investment Decision Process

FRAMEWORK FOR REAL ESTATE INVESTMENT STUDIES

1. Strategy: Develop an overall investment philosophy
2. Analysis: Measuring return
3. Decisions: Risk and return evaluations
4. Investment Transaction
5. Feedback

INVESTMENT ANALYSIS VS. FEASIBILITY ANALYSIS

1. Investment and Investment Analysis

- a) Capital Assets
- b) Equity
- c) Debt
- d) NOI
- e) Lender/Equity Relation
- f) Maximizing Wealth
- g) Return and Risk

INVESTMENT ANALYSIS VS. FEASIBILITY ANALYSIS (CONTINUED)

2. Feasibility and Feasibility Analysis

- a) Site in Search of a Use
- b) Use in Search of a Site
- c) Investor Looking for the Best Investment Alternative

3. Investment Life Cycles

- a) Property Life Cycle
- b) Ownership Life Cycle
- c) Investor Life Cycle

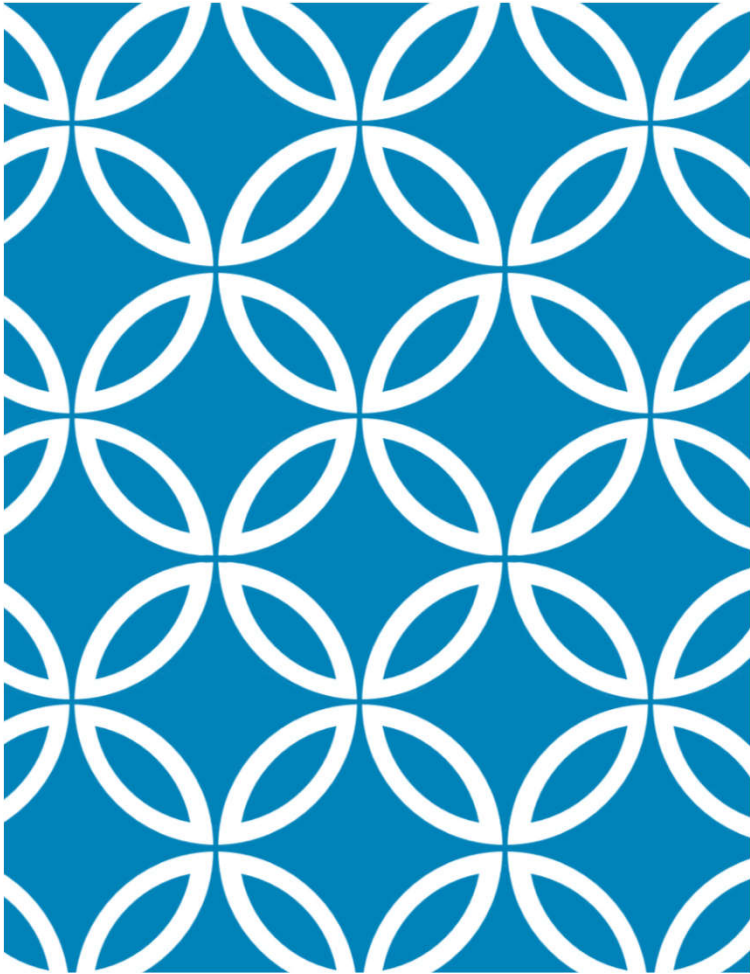
INVESTMENT ANALYSIS VS. FEASIBILITY ANALYSIS (CONTINUED)

4. Ownership Life Cycle

- a) Acquisition
- b) Operation
- c) Disposal/Termination

5. Investor Life Cycle

- a) Young Investor
- b) Middle Aged Investor
- c) Older Investor
- d) Institutional Investor



REAL ESTATE INVESTMENTS

Decision Making Approaches to Real Estate Investment

01

Investment
Markets

02

The
Market
Today

03

Demand

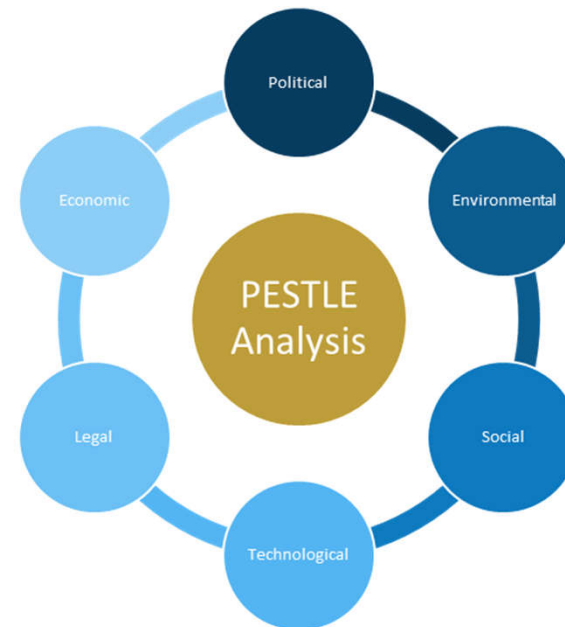
04

Supply

05

Forecast..!

INVESTMENT DECISION PROCESS



ANALYTICAL TOOLS...

LIST OF DETERMINANTS

Macro Outlooks

1. Socio Economic Overview
2. Investment Overview
3. Demographic
4. Government Plan
5. Political Condition

Micro Outlooks

1. Local condition
2. Local Characteristic
3. Location Characteristic
4. Competitor Review
5. Local Government Plan

TRADITIONAL FINANCIAL DECISION MAKING APPROACHES

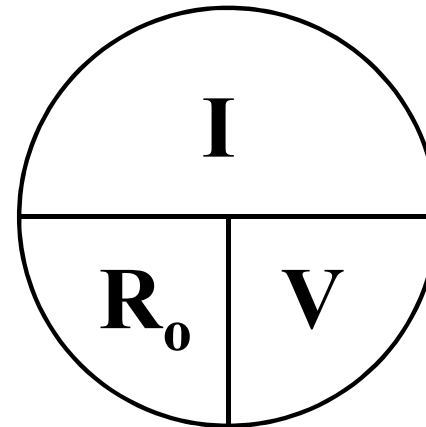
1. Investment Value Approach

- a) Invest if: $V > C$
- b) Reject if: $V < C$

2. IRV

Assumes:

- a) Productivity = NOI
- b) NOI is stabilized
- c) Holding period is infinite
- d) Capital is recaptured from income, except land



MODERN CAPITAL BUDGETING APPROACHES

1. The Present Value Model

2. Internal Rate of Return

3. Modified Internal Rate of Return

4. Risk Analysis

- a) Ratio and Sensitivity
- b) Simulation
- c) Elasticity

INVESTMENT PRINCIPLES

1. The investor should buy the assumptions that create the yield rather than the yield itself.
2. The investor should be as concerned about what to offer the next buyer as with what he is buying
3. The investor should price the property apart from the tax advantages.
4. The investor must compare alternatives.
5. The investor should understand the potential profit and risk in terms of DOLLARS.

SOURCES OF RETURN FROM A REAL ESTATE INVESTMENT



Cash flow from operations



Tax Savings



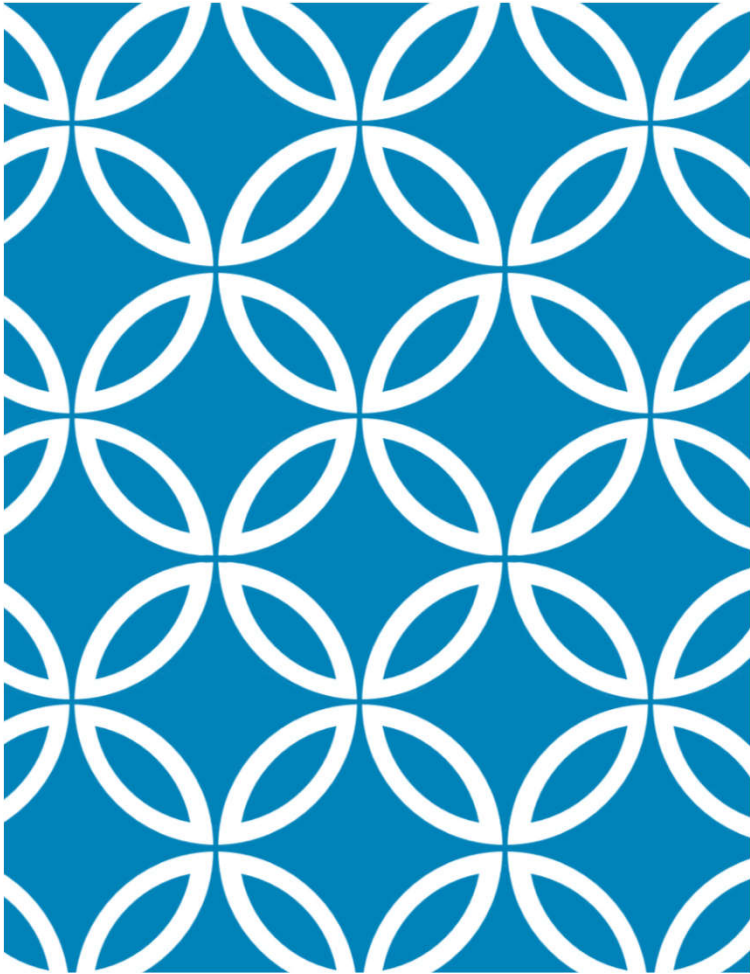
Equity buildup from loan amortization



Loan refinancing proceeds



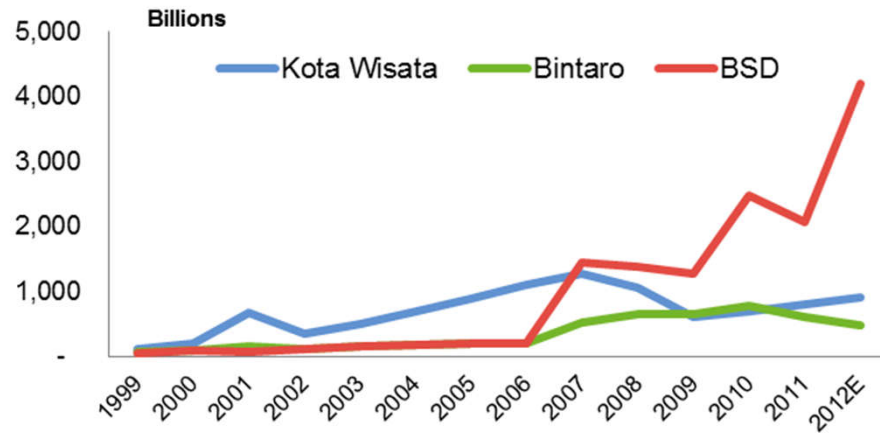
Appreciation of property value (sales proceeds)



REAL ESTATE INVESTMENTS

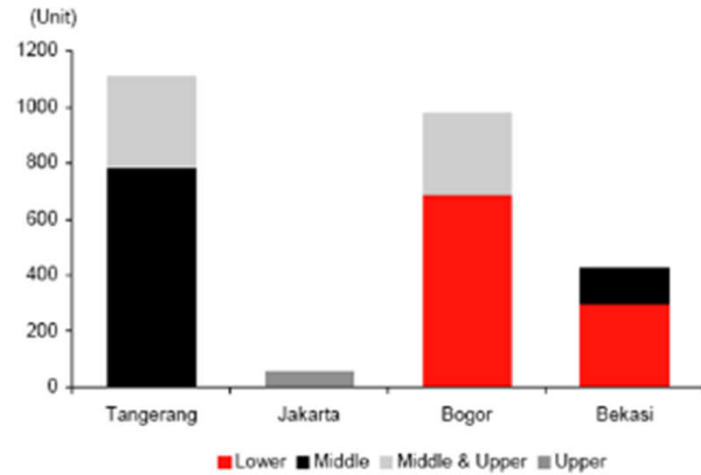
Sample Forecasting: Residential

Pendapatan Penjualan



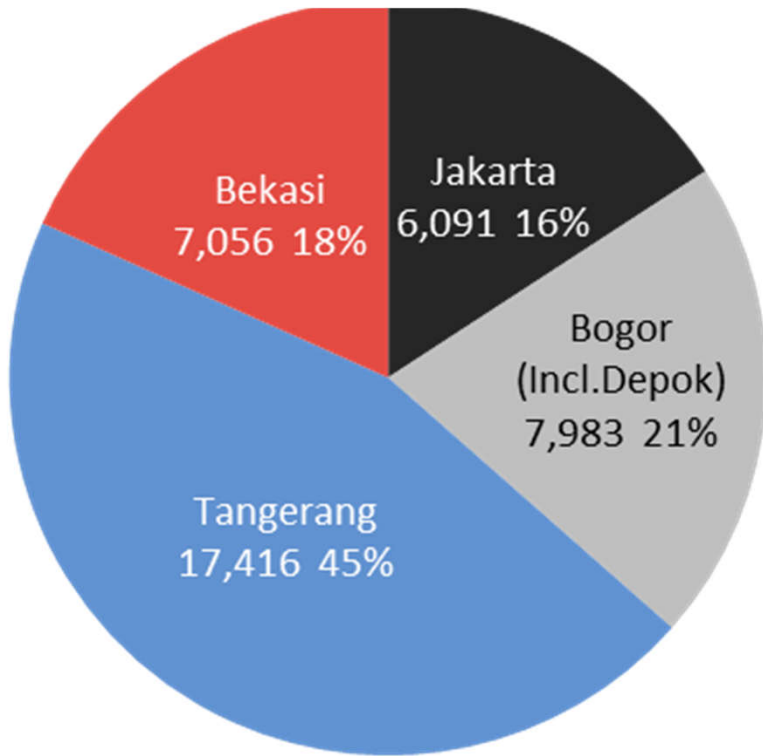
Sumber: Bintara Internasional Research

Residential Classification Based on Areas



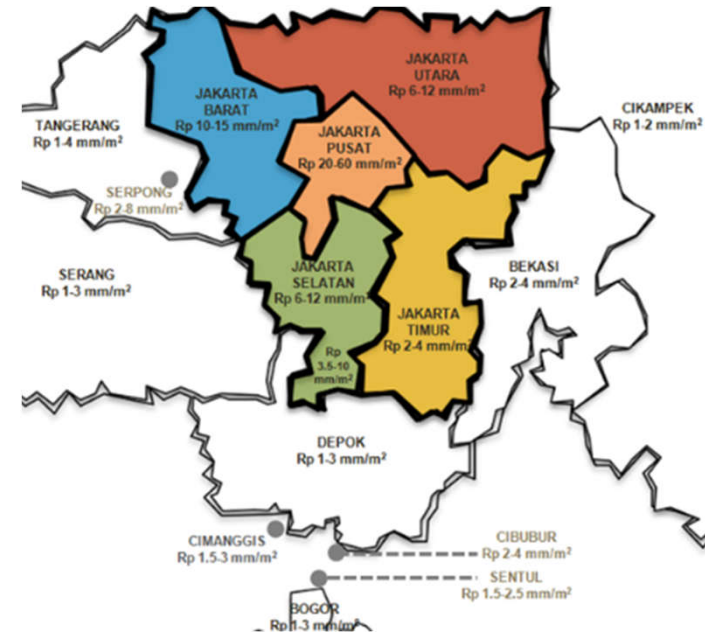
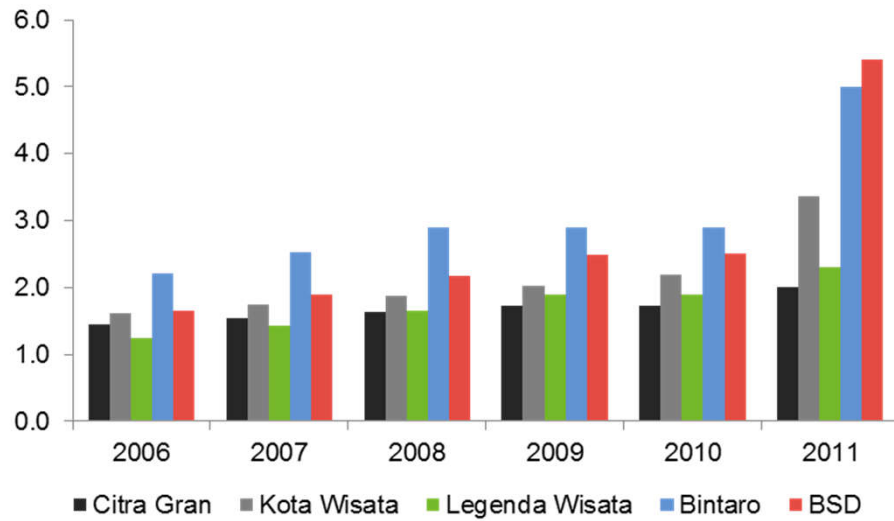
Sumber: Macquaire Research, 2009

RESIDENTIAL DEMAND



Developer	City	Permitted Land Area (ha)
Sentul Nirwana	Jonggol, West Java	12,407
Bumi Serpong Damai	Tangerang, Banten	6,000
Tiga Raksa	Tangerang, Banten	3,000
Citra Raya	Tangerang, Banten	2,760
Sentul City	Bogor, West Java	2,700
Alam Sutera Pasar Kemis	Tangerang, Banten	2,600
Bintaro Jaya	South of Jakarta	2,321
Kota Legenda	Bogor, West Java	2,000
Lippo Karawaci	Tangerang, Banten	2,000
Cikarang Baru	Bekasi, West Java	1,400
Grand Wisata	Bekasi, West Java	1,100

RESIDENTIAL SUPPLIES



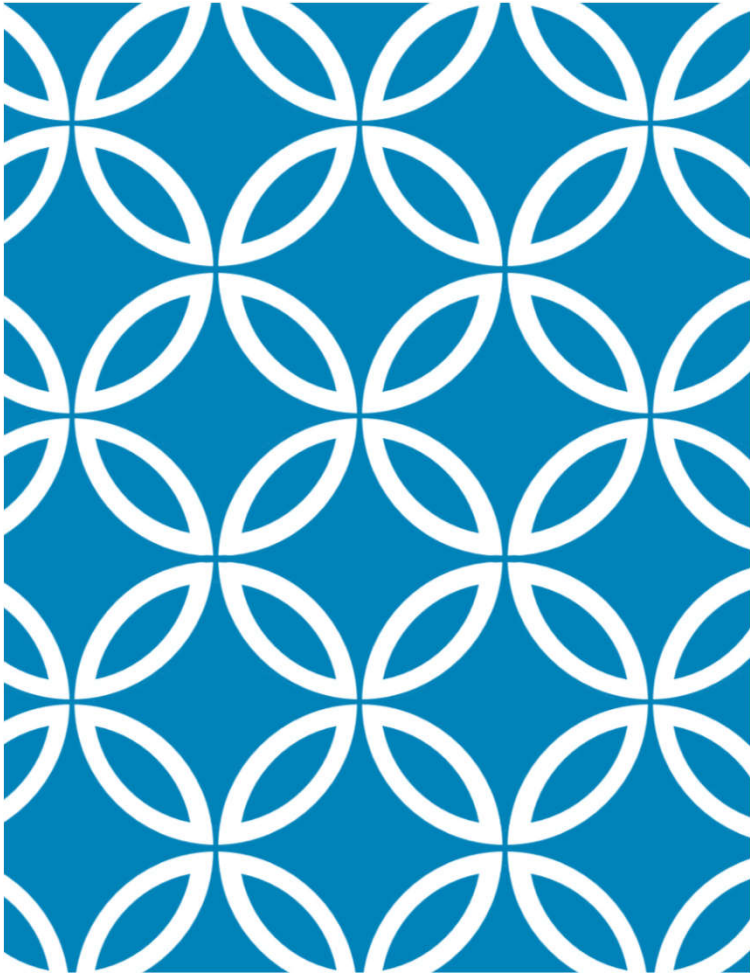
RESIDENTIAL SUPPLIES



Building Selling Price and Lease (2013)			
Building selling price - Mid Size Houses (Golf&non-Golf view)	Rp/sqm		4,200,000
Building selling price - Large Residential (Golf view)	Rp/sqm		6,000,000
Land selling price- Commercial	Rp/sqm		10,000,000
Land Lease - Commercial	Rp/sqm/6mo		250,000
Land Lease - Fasos Fasum	Rp/sqm/6mo		150,000
Building Lease - Shopping Mall	Rp/sqm/mo		200,000
Building Lease - Resort Hotel	Rp/sqm/mo		450,000
Development Costs			
City Infrastructure Cost	ROW Area	Rp/sqm	450,000
Remaining Land Acquisition Cost	GLA	Rp/sqm	600,000
Building Construction Cost- Standard Residential		Rp/sqm	3,500,000
Building Construction Cost-Golf View Residential		Rp/sqm	4,820,000
Building Construction Cost- Shopping		Rp/sqm	6,000,000
Site Dev. Cost - Residential	NLA	Rp/sqm	750,000
Site Dev. Cost - Commercial	NLA	Rp/sqm	1,000,000
Site Dev. Contribution - Residential	NLA	Rp/sqm	50,000
Site Dev. Contribution - Collected	NLA	%	50%

Expenses, Tax & Cost Covenant			
Residential			
Professional Fees	of Costs except for Outside Plan		5%
Marketing Fee	of Rev.		3%
Agency Fee	of Rev.		3%
Operational Cost	of Rev.		3%
Legal Permit	of Costs except for Outside Plan		4%
Contingency	of Costs except for Outside Plan		5%
Final Tax	of Rev.		5%
Commercial Operating Assets			
Professional Fees	of Costs		5%
Marketing Fee	of Rev.		10%
Agency Fee	of Rev.		3%
Operational Cost	of Rev.		30%
Legal Permit	of Costs		4%
Contingency	of Costs		5%
Final Tax	of Rev.		10%
Price increase			7.0%
Others			
Tax	of PBT		25%
Maintenance Capex	of Total Dev Capex		5%
Cash Covenant	of Opex		5%
Dividend Payout			0%
Interest on Loan			11%

RESIDENTIAL FORECASTING SAMPLE



REAL ESTATE INVESTMENTS

Current Trends in Apartment Development

CURRENT STUDIES (JLL, 2018)

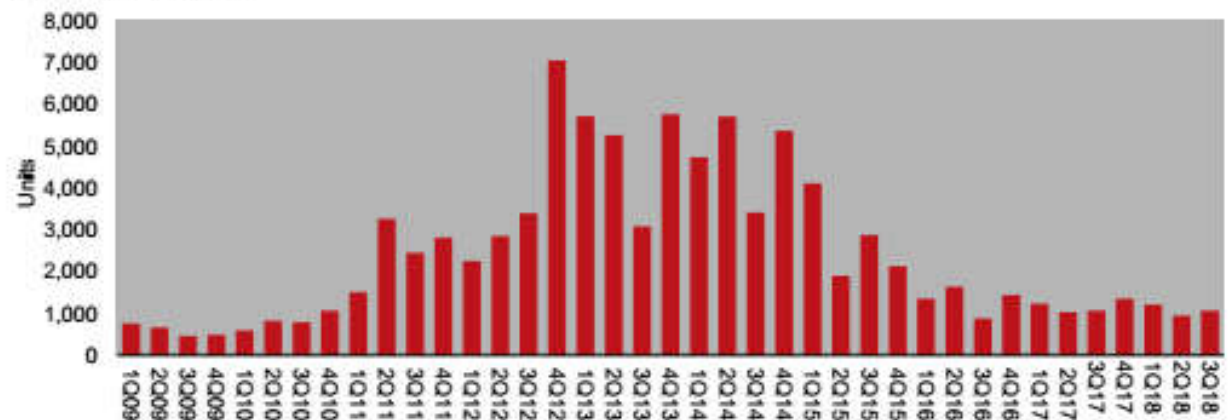
Demand & Supply

- The condominium sales market, particularly at the higher end, remained challenging in 3Q18 as currency depreciation against the US dollar, competition with the secondary market and potentially the upcoming presidential election (set for April 2019) weighted on buyer sentiment. Where primary market prices have stayed flat over the past couple of years, secondary market prices – which are more market driven – have fallen. As such, some buyers have been opting for secondary market units which they feel offer better value.
- Smaller cheaper units remained relatively popular with buyers and developments with

access to the upcoming Mass Rapid Transit (MRT) and Light Rail Transit (LRT) remained interesting for buyers. The LRT in particular is set to shorten commute times significantly from certain areas of Greater Jakarta.

- In the middle to upper tier, more than one thousand units were physically completed in 3Q18 as two towers at both the LaVie and Pakubuwono Springs developments finished construction. A single tower at the Casa Domaine project was also completed during the quarter. However, No new upper tier condominiums were launched for sale in 3Q18 and no additional serviced apartments were physically completed.

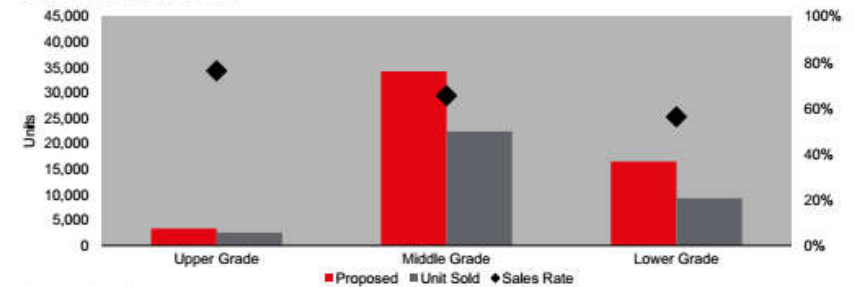
Condominium Sales



Source: JLL Research

CURRENT STUDIES (JLL, 2018)

Condominium Sales Rate

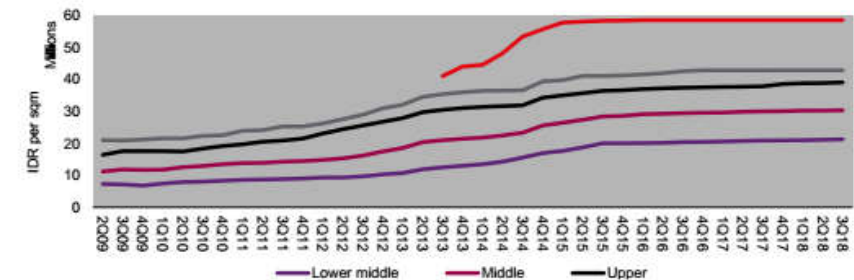


Source: JLL Research

Condominium prices

- Condominium prices in the primary market have remained broadly flat since sales dropped off in 2015 and this continued to be the prevailing trend in 3Q18. There was room, however, for some minor increments in lower tier market segments where affordability is greater and the tax burden low.
- No secondary market data series exists in Indonesia but anecdotal evidence suggests that prices have fallen in recent years which means that some buyers may be tempted with secondary market units.

Condominium Prices



Source: JLL Research

Condominiums

- High rise living can be a difficult sell in Greater Jakarta which is more known for the landed housing – historically a preferred residential format for Indonesians. However, with the right offering – particularly in terms of pricing – developers are able to capture demand.
- The upcoming LRT development, due for completion next year, is also an interesting proposition for some developers. Transit Oriented Developments or TODs are very much on the radar for local and international groups and the right developments are likely to prove popular with buyers looking to buy into the increased convenience offered by mass transit.
- Most existing condominium supply in Greater Jakarta is in Tangerang (58%) with the rest spread around the conurbation to the south and the east.
- The average sales rate of 64% is about the same as the corresponding figure for DKI Jakarta (63%) but is likely to be a little lower than that for landed housing.
- Smaller, cheaper units remain as the dominant unit type – 50% of units on the market are studios – while two bedroom units constitute around a third of existing sales market stock.

CURRENT STUDIES
(JLL, 2018)

CURRENT STUDIES (C&W, 2018)



Colliers Quarterly

JAKARTA | APARTMENT

Q2 2018

20 September 2018



Ferry Salanto Senior Associate Director | Jakarta

We expect the apartment market to remain lacklustre in 2018, given the persistently weak sentiment highlighted by slower capital gain appreciation and a sluggish rental market. We believe low affordability, which is typical in a stagnant economic growth, prolonged weak sentiment, as a large incoming supply continues to plague the market. Also, potential buyers may prefer to wait and see, given the looming general election that is scheduled to be held in April 2019. Meanwhile, the interest rate hike could be a bane when affordability is already a major concern amongst buyers.

On the other hand, given the strong response for affordable projects underpinned by the healthy demand from end-users, gives optimism for the robust line-up of new launches coming from the middle-lower segment in the coming quarters. Affordable rates combined with lower mortgages should attract developers to partake in this market. Both local and international developers join the competition to grab this huge potential market. We are still in a positive view over the residential property market in the long term, on the back of the large and relatively young population, as well as a low mortgage penetration ratio.

Forecast at a glance



Demand

Apartment market sentiment continues to be weak and we project the take-up rate to reach 84-85% by the end of 2018. Overall demand will likely recover to 85-87%, as the market should be more confident after the general and presidential elections in 2019 and 2020.



Supply

We expect an additional 16,081 units or 8.3% of the current stock coming online in the remainder of 2018. The forthcoming annual supply will likely still be significant in number, around 20,234 units in 2019 and 14,324 units in 2020.



Rent

Rent seems to have stabilised throughout 2018, whilst the overall 3-4% increase in rent per annum in 2019-2020 is quite a moderate projection amidst the tight rental market.



Price

We still expect room for price increases despite the current slowdown. We expect from now to 2020, unit prices are expected to increase by 4.5-5.5% per annum.

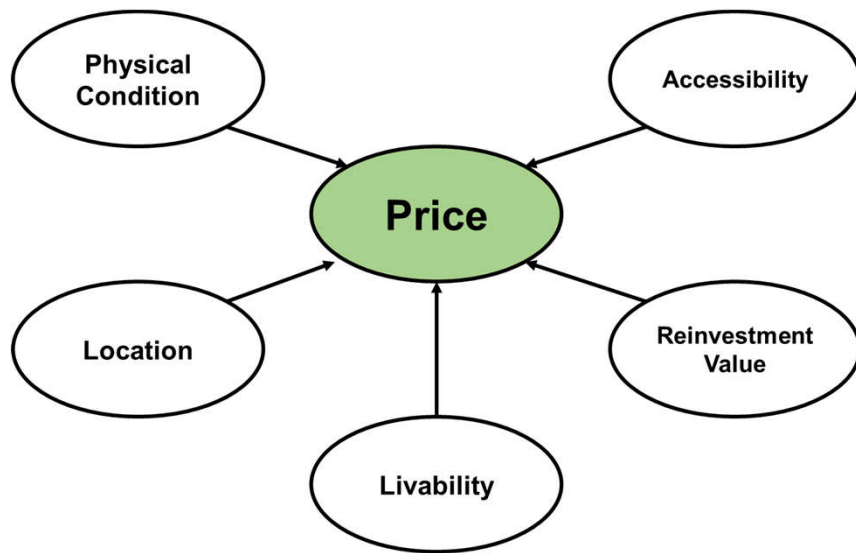
Strata-title Apartment...still in doldrums

Supply

The slow Ramadan period, which fell in Q2 2018, was traditionally quiet when it comes to project launches. During the quarter, there were only three projects launched, totalling 1,944 units. These include Apple Residence, Puri 8 Residence and Sakura Garden City (Cattleya Tower). Apple Residences is a low-rise apartment, where each of the floors is an independent dwelling. Apple Residences offers studio to three-bedroom type of units, targeting the middle market segment.

Sakura Garden City (previously Southeast Capital) is a mixed-use development with local developer Trivo Group, collaborating with Daiwa House and Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN), under the name PT. Sayana Integra Property. This project is scheduled to be Daiwa House's first residential project after actively developing industrial parks and rental warehouses. Located on a 12-hectare site and consisting of 12 towers, a shopping mall and hotel, the project is planned to come in four phases.

CURRENT STUDIES (COLLIERS, 2018)



CURRENT STUDIES (RAHADI ET AL., 2019)

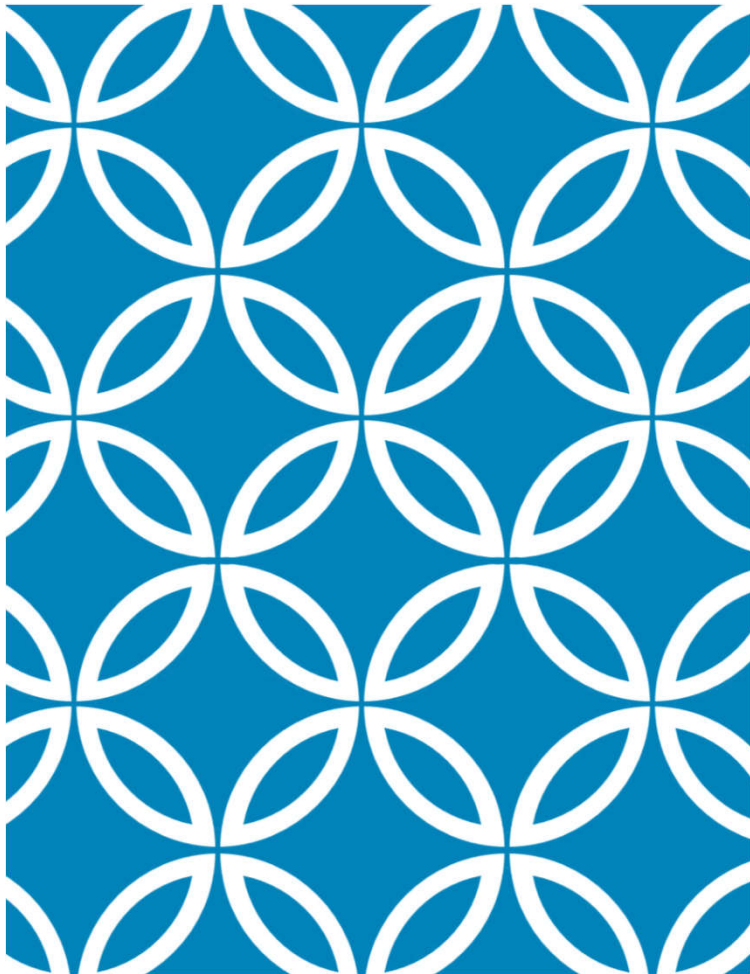
Mean Analysis Results for All Cities (Authors' Analysis)

Item	Bandung	Bekasi	Surabaya
Physical Condition	4.28	5.075	4.909
Accessibility	4.54	5.456	4.851
Location	4.40	5.548	5.154
Reinvestment Value	4.70	5.147	5.131
Livability	4.16	5.373	4.794

Ranking of Mean Analysis for All Cities (Authors' Analysis)

Item	Bandung	Bekasi	Surabaya
Physical Condition	4.28	5.075	4.909
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Reinvestment Value	4.70	5.147	5.131
Livability	4.16	5.373	4.794

CURRENT STUDIES
(RAHADI ET AL., 2019)



THANK YOU

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