SUMMARY

ZAINAL ZAWIR SIMON.Determinants of Rental Rates and Selling Prices of Office Space Building in Jakarta. Supervised by NOER AZAM ACHSANI, ADLER H. MANURUNG, and ROY SEMBEL.

Like other sectors of businesses, property sector constitutes one of the sectors that is experiencing fast development in Indonesia. In general, either commercial property or residential property are facing meaningful development. For commercial property, especially office sector, it is important to understand and comprehend factors that influence rental rate and selling price. A failure to do so may results in a fatal impact to business. Based on the problem mentioned above, the objective of this research is to study the effect of macroeconomic and microeconomic variables to rental rate and selling price of office space in Jakarta.

Quarterly time series data were used from the period of 1996:1 to 2012:4 period. In addition, quantitative methods in the form of Vector Error Correction Model (VECM) were also used in this study. The aim of using VECM was to study co-movement between rental rate and selling price with macroeconomic and microeconomic variables. Furthermore, it was utilized in an effort to study dynamic relationship among variables, either in the short term or long term. Most of variables were obtained from Bank Indonesia (BI) and the rest are from Central Bureau of Statistics (BPS). Macroeconomic variables that are used in this study are interest rate, inflation, service sector employment, economic growth, unemployment and exchange rate. In the meantime, construction cost, office space stock and vacancy rate are used as microeconomic variables.

The result of CR and HHI showed that the industrial structure of property in Indonesia is in the form of imperfect oligopoly with differentiated products. Conversely, office space market is in the form of perfect competition.

Based on the result of VECM for macroeconomic variables, in the long term, rental rate is significantly influenced by interest rate, exchange rate, service sector employment, and inflation. Economic growth negatively influences rental rate. This could happen considering that the contribution of property sector to economy is relatively small if compared to other sectors. On the contrary, Selling price in the long term is affected by economic growth, exchange rate, interest rate, and service sector employment.

In the short term, rental rate is only affected by previous selling price. Conversely, selling price in the short term is significantly influenced by inflation, exchange rate and interest rate.

All the results mentioned above are consistent with the result of interview with some practitioners in property sector. In general, property sector is highly sensitive to the change of interest rate, inflation, exchange rate and economic growth. Service sector employment is an interesting phenomena that come up from the analysis.

Analysis of IRF showed that rental rate and selling price responded permanently to the shocks of macroeconomic variables. Moreover, based on the analysis of FEVD, the rental rate is predominantly influenced by rental rate followed by service sector employment, exchange rate, inflation, interest rate, and economic growth. On the contrary, selling price is predominantly influenced by
Based on the result of VECM for microeconomic variables, in the long run, rental rate and selling price are significantly affected by construction cost, office space stock and vacancy rate. In the short run, rental rate is affected significantly by selling price previous period. Office space stock is positively influenced rental rate. This could happen when demand outnumbers office space stock.

Mean a while, in the short run, selling price is influenced by rental rate of previous period and selling price of previous period. Vacancy rate also affects selling price significantly. In the meantime, construction cost negatively influences selling price. This indicates the increase in the construction cost is not automatically followed by the increase of selling price.

Analysis if IRF showed that rental rate and selling price responded permanently to the shocks of microeconomic variables such as construction cost, office space stock and vacancy rate. Moreover, based on the analysis of FEVD, rental rate is predominantly affected by rental rate followed by selling price, office space stock, construction cost, and vacancy rate. Conversely, selling price is predominantly affected by rental rate followed by selling price, office space stock, construction cost and vacancy rate.

In conclusion, rental rate and selling price could be affected by macroeconomic and microeconomic variables. In the market analysis, the use of macroeconomic and microeconomic variables simultaneously can be undertaken or could be done independently. Investor and developer may use this research results as one of the approaches in managerial decision making process.

The use of consumer price index as the proxy of inflation for commercial property is considered inappropriate because there is no commercial property component in the consumer price index. Therefore, it is better to obtain index that is suitable for commercial property and other uses. In the current level of vacancy rate, it seems that Jakarta need not to worry about high vacancy rate since the rate of vacancy in Jakarta is relatively small. However, in an effort to anticipate the over vacancy rate that might occur in the future, it is better to find out the natural vacancy rate (NVR) or optimal vacancy rate for Jakarta. This NVR can be utilized by developer and investor as a measure to forecast the need for office spaces from time to time in the future.

Keyword: Macroeconomic variables, Microeconomic variables, Rental rate, Selling Price, VAR/VECM