

# **RESIDENTIAL LAND DEVELOPERS' BEHAVIOUR IN JABOTABEK, INDONESIA**

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## ABSTRACT

In *Jabotabek* Indonesia, the private sector has urbanised 16.6 thousand hectares of rural land far away from the built-up area of Jakarta, selling around twenty five thousand housing units annually. Yet, there is little research, if any, that explores how and why private sector companies undertook such land development.

This research investigated the behaviour of these formal private sector developers of land for housing, particularly their responses in the site selection process to land price, accessibility to centres of activities and availability of infrastructure. It hypothesised that, with the advent of economic liberalisation in *Jabotabek*, land price became the most important factor in deciding a project's site.

Using an exploratory research strategy, a case study approach was adopted with *Kabupaten* Tangerang as the chosen area. Data was collected from several sources. In-depth interviews were conducted with 34 persons including executives of land development companies, experts and Government officials. Interviews were also administered to 232 households in 15 residential projects in *Kabupaten* Tangerang. A great deal of information on the companies' ownership was gathered through the Internet.

Overall, it was concluded that these land developers were most strongly guided by land price in the selection of site because they took advantage of the country's particular financial conditions, economic growth and land use regulations to obtain the largest possible increases in land value which could occur when rural use was converted to urban use. Providing infrastructure and using certain marketing techniques as well as large scale construction completed with urban facilities and amenities, the developers enhanced the land value enormously. Among other effects, their activities have increased the supply of land for residential development far beyond the actual demand.

The findings of this research reveal flaws in urban growth models based upon proximity to existing service infrastructures, as well as in Government policies built upon such models. In Indonesia, they also suggest the need to review the roles of public infrastructure investment and to reform the Location Permit system. The findings also suggest new areas for further research.

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## GLOSSARY AND ABBREVIATIONS

<i>Adat</i>	:	Customary
<i>BAL</i>	:	Basic Agrarian Law of 1960
<i>BAPPEDA</i>	:	<i>Badan Perencanaan Pembangunan Daerah</i> , Local Development Planning Board
<i>BAPPENAS</i>	:	<i>Badan Perencanaan Pembangunan Nasional</i> , National Development Planning Board
<i>BKPM</i>	:	<i>Badan Koordinasi Penanaman Modal</i> , Investment Co-ordinating Board
<i>Botabek</i>	:	Bogor, Tangerang, Bekasi
<i>BPN</i>	:	<i>Badan Pertanahan Nasional</i> , National Land Agency
<i>BSD</i>	:	<i>Bumi Serpong Damai</i>
<i>BTN</i>	:	<i>Bank Tabungan Negara</i> , State Mortgage Bank
<i>Bupati</i>	:	Head of <i>Kabupaten</i>
<i>CBD</i>	:	Central Business District
<i>Cultuurstelsel</i>	:	A system enforced by the Dutch colonial Government to exploit native peasants. This system required the peasants to grow export crops on a certain percentage of their land or, alternatively, to work for a number of days annually on state plantations or other state projects
<i>EIA</i>	:	Environmental Impact Assessment
<i>GLD</i>	:	Guided Land Development
<i>Hak Gadaai</i>	:	Right of Pawn
<i>Hak Garapan</i>	:	Use Right
<i>Hak Girik</i>	:	Tax Letter Right
<i>Hak Guna Bangunan</i>	:	Right of Building
<i>Hak Guna Usaha</i>	:	Right of Cultivation
<i>Hak Menumpang</i>	:	Right of Lodging
<i>Hak Milik Adat</i>	:	Traditional Ownership Right
<i>Hak Milik</i>	:	Fee Simple Ownership Right
<i>Hak Pakai</i>	:	Right of Use
<i>Hak Sewa</i>	:	Right of Lease
<i>Hak Tanah Kongsi</i>	:	Commercial Use Rights.
<i>Hak Tanah Usaha</i>	:	Exploitation Right
<i>HGB</i>	:	<i>Hak Guna Bangunan</i>
<i>HGU</i>	:	<i>Hak Guna Usaha</i>
<i>HO</i>	:	<i>Hinder Ordonantie</i> , Nuisance Law
<i>HP</i>	:	<i>Hak Pakai</i> , Right of Use
<i>IDAP</i>	:	IUIDP Development Assessment Plan
<i>Ijin Gangguan</i>	:	Nuisance Permits
<i>Ijin Lokasi</i>	:	Location Permit
<i>Ijin Mendirikan Bangunan</i>	:	Building Permit

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<i>Ijin Perencanaan</i>	:	Planning Permit
<i>Ijin Prinsip</i>	:	Principal Permit
<i>Ijin Tetap</i>	:	Definite Permit
<i>Ijin Usaha</i>	:	Operation Permit
IUIDP	:	Integrated Urban Infrastructure Development Program
<i>Jabotabek</i>	:	Jakarta, Bogor, Tangerang, Bekasi
<i>Kabupaten</i>	:	Administrative unit below the province, excluding major urban centre
<i>Kampung</i>	:	An urban neighbourhood characterised by mixed land uses and a diversity of informal housing
KIP	:	Kampung Improvement Programme
<i>Kotamadya</i>	:	Municipality, an administrative unit below the province
KPR	:	<i>Kredit Pemilikan Rumah</i> , Housing Loan
MHT	:	Muhammad Husni Thamrin, The name of the first type of KIP
MOHA	:	Ministry of Home Affairs.
MOPW	:	Ministry of Public Works
NUDS	:	National Urban Development Strategy
PBB	:	<i>Pajak Bumi Bangunan</i> , Land and Building Tax.
PDAM	:	<i>Perusahaan Daerah Air Minum</i> , Local Water Company
PERTAMINA	:	<i>Perusahaan Tambang Minyak Nasional</i> , State Oil Company
PERUM PERUMNAS:		<i>Perusahaan Umum Pembangunan Perumahan Nasional</i> , National Urban Development Corporation
PT	:	<i>Perseroan Terbatas</i> , Limited Company
PTPS	:	<i>PT Papan Sejahtera</i>
RAPBD	:	<i>Rencana Anggaran dan Belanja Daerah</i> , Local Budget
RAPBN	:	<i>Rencana Angaran Pendapatan dan Belanja Negara</i> , National Budget
RDTRK	:	<i>Rencana Detil Tata Ruang Kota</i> , Detailed Urban Plan
REI	:	Real Estate Indonesia
REPELITA	:	<i>Rencana Pembangunan Lima Tahun</i> , Five-year Development Plan
REPELITADA	:	<i>Rencana Pembangunan Lima Tahun Daerah</i> , Local Five-year Development Plan
RKL	:	<i>Rencana pengKelolaan Lingkungan</i> , Design and Operating Plans, for mitigating potential environmental negative impact
Rp.	:	<i>Rupiah</i> , Indonesian Currency
RPL	:	<i>Rencana Pemanfaatan Lingkungan</i> , Plans for monitoring and reporting on actual environmental impact.
RTR	:	<i>Rencana Tata Ruang</i> , Spatial Plan

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<i>RTRK</i>	:	<i>Rencana Teknik Ruang Kota, Technical Spatial Plan</i>
<i>RTRWN</i>	:	<i>Rencana Tata Ruang Wilayah Nasional; National Spatial Plan</i>
<i>RTRW</i>	:	<i>Rencana Tata Ruang Wilayah, Spatial Plan</i>
<i>RTRWK</i>	:	<i>Rencana Tata Ruang Wilayah Kabupaten/ Kotamadya, Kabupaten/Kotamadya Spatial Plan</i>
<i>RTRWP</i>	:	<i>Rencana Tata Ruang Wilayah Propinsi; Provincial Spatial Plan</i>
<i>RUTRK</i>	:	<i>Rencana Umum Tata Ruang Kota, General Urban Spatial Plan</i>
<i>RUTRP</i>	:	<i>Rencana Umum Tata Ruang Perkotaan, General Spatial Plan for Urban Areas</i>
<i>VOC</i>	:	<i>Verenigde Oost Indische Compagnie, East India Company</i>
<i>Walikota</i>	:	<i>City Mayor</i>
<i>WJUDP</i>	:	<i>West Java Urban Development Project</i>

*Part one*

**Formal Private Residential Land Development:  
Research on Developer Behaviour**

## Chapter I

### Formal Residential Land Development: The Rational of the Research

#### Background

Selling at an average of twenty five thousand house units annually<sup>1</sup> and transforming 16.6 thousand hectares of land<sup>2</sup> into residential area within 20 years alone is undoubtedly extraordinary. Those were achieved by private developers in *Jabotabek*<sup>3</sup> area, an emerging Mega-urban region in Indonesia, between the 1970s and the 1990s. The phenomenon is more fascinating if the residential area's location in relation to built-up area of Jakarta is considered. Yet, there is little research, if any, that seeks to explore how the private sector companies can bring about such land development in Indonesia.

Land developers' behaviour has been the interest of many research. Study on the behaviour of developers in development process was first developed by the North Carolina group, which focused on the locational decision of developers in North Carolina (Weiss, et al., 1966; Kaiser, 1968; Kaiser and Weiss, 1970). This kind of study is basically focused on the regularities in decision behaviour of the actors. In Europe and particularly in Britain this approach has also been applied by some scholars (see for example: Carven, 1969; Drewett, 1973; Healey and Nabaro, 1990; Healey, 1992; Adam 1994; Kraben, 1993, Kraben and Lambooy 1993). However, unlike those in the US and Britain, the private developers' behaviour in land related decision process in the developing countries is largely unexplored.

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<sup>1</sup> Calculated from Central Bureau of Statistic data presented by the Indonesian Team (1995).

<sup>2</sup> Calculated from BPN data 1997.

<sup>3</sup> *Jabotabek* is an acronym of Jakarta, Bogor, Tangerang and Bekasi. This acronym was used for the first time in a report prepared by a Dutch team for the Directorate General of Human Settlement, Ministry of Public Works of Indonesia in 1973. The report itself was entitled: "*Jabotabek: A Planning Approach of the Absorption Capacity for New Settlements within the Jakarta Metropolitan Region*". The acronym *Jabotabek* presented in a nutshell the basic idea of the planning approach, which incorporates four centres in the planning concept for Jakarta Metropolitan Region (Giebels, 1986).

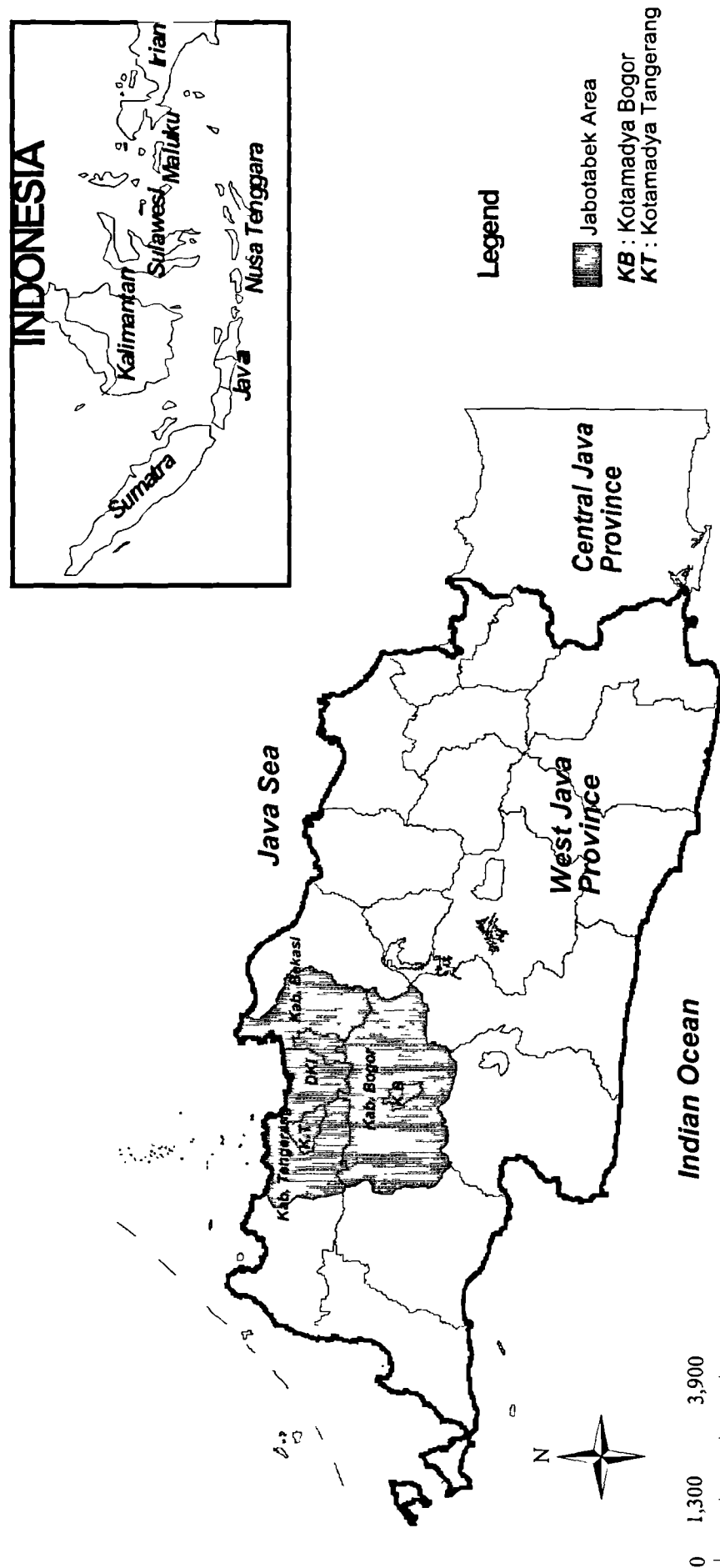
*Jabotabek* region is one of the areas which experienced massive formal land development in Indonesia. The region comprises of the Special Province of the Capital of Indonesia (*DKI* Jakarta) and the three surrounding local Governments of *Kabupaten* Bogor, *Kabupaten* Tangerang and *Kabupaten* Bekasi in the Province of West Java (see Figure 1.1). The current population of the area represents approximately 12 per cent of Java's population. The population growth in the region was tremendous, from about 8.3 million in 1971 to 17.1 million in 1990, and is predicted to reach the number of 30 million by the year 2010 (BPS, 1994). The area attracted more than 30 per cent of the total domestic investment and more than 2.11 per cent of the total foreign direct investment in the country (Soegijoko, 1995). Within 1980 to 1990, the GRDP per capita in the region grew at an average of 15.22 annually. The remarkable population and economic growth in the region increased the demand for land, mostly for housing and industrial estate.

However, despite this striking growth and its associated land development, the behaviour of private developers in this area is not fully understood. It can not be ascertained as to what kind of land is most attractive for the private developers and how this is affected by, or affects the supply of land and housing in the region.

### **The Emerging Issue**

In the *Jabotabek* area, land developments, particularly for residential uses, have penetrated far into the rural areas, creating urban sprawls (Henderson, Kuncoro and Nasution, 1996; Firman and Dharmapatni, 1994; Firman, 1994; Noe, 1991; Winarso and Kombaitan, 1995). In some cases the development even takes place in rural areas where basic infrastructure such as roads, drainage, and electricity networks were not available at the beginning of the development. It seems that the selection of land made by the developers for their development has not always been associated with the availability of neither basic infrastructure nor a good access to urban centre. The sprawls have been alarming, but the central

**Figure 1.1:**  
*Jabotabek Area*



issue, in the absence of sound land use regulations (Fergusson and Hoffman, 1993), is not the actual threat to fertile agricultural land as argued by some authors (notably: Firman and Dharmapatni, 1994; Douglass, 1989) nor the diseconomies of agglomeration (Dowall and Clarks, 1991) caused by such a development. The central issue is the “unpredicted” choice of location for residential development in terms of its relation to the built-up area of Jakarta. It is this unpredictable move of the developers which need to be investigated. It seems that the selection of land made by the developers for their development has not always been associated with the availability of neither basic infrastructure nor a good access to urban centre

Traditionally, the location for residential development has been explained in its relation to the jobs or centres of activities (Archer, 1992; Drabkin, 1977; Alonso, 1974; Evans, 1973). Land for urban use is also associated with its connection to metropolitan roads, drainage, water supply and electricity supply networks (Archer, 1992; Greer, 1979). Thus, unlike agriculture use which its usefulness and market value are primarily determined by the fertility of the land, the traditional notion of the usefulness and market value of urban use is determined by its accessibility to other urban activities and the availability of basic infrastructure.

The established criteria of land allocation at present are based on neo-classical marginalist approach of supply and demand market mechanism. Proponent of this theory saw that accessibility is the major determinant of the relative profitability of land use as this quote may explain:

*“While acknowledging that various other attributes of a location may influence the rent that it can command, the key systematic determinant of rent levels is postulated to be accessibility.”* (Rhind & Hudson, 1980: 191).

Accordingly, the conventional logical consequence of this theory is that because land which is developed for residential use in fringe area is basically an urban



use, the most suitable land for this kind of development would be land with connection to urban infrastructure (Archer, 1992; Devas, 1993) which also has a better access to urban activities, and since infrastructure development is expensive, its provision by Government is essential. The latter is believed to have two benefits: it cuts the development cost of the private sector and directs private development (Billand, 1993; Mattingly, 1996; Dowall and Clarkes, 1991; Devas, 1993).

What seems to have been happening in the region is that the selection of the land for residential development was more determined by its price rather than by the distance to city centre or the availability of basic infrastructure. That is to say that in some cases the cheaper the price of the land the more valuable is the land for residential development.

If the observation is true, the neo-classical marginalist theory on land value as best represented by Hurd's statement:

*"Since value depends on economic rent, and rent on location on convenience, and convenience on nearness, we may eliminate the intermediate steps and say that value depends on nearness."* (Richard M Hurd as quoted by Alonso, 1965).

may not be sufficient to explain the behaviour of the developers and therefore the traditional land use policies, notably those related to the provision of basic infrastructure are questioned.

### **Relevance of the Study**

Most of the literature on land and housing development in developing countries are emphasized on low-income segment of the market (Notably; Angel et al., 1983; Turner, 1967, 1972; Payne, 1977; Baros and van der Linden, 1990; Baken and Van der Linden, 1992). Research on land development is also heavily focused on the role of the state/Government and the issues of access to land for the poor (see for example: Angel, et al., 1983; Durand, 1990; Farvaque and

McAuslan, 1991; Devas and Rakodi, 1993). Other major topics are policy instruments for land management (see for example, Archer, 1992, 1994; Devas, 1983, Yap and Angel, 1992; Dowall, 1991). The formal private developers' behaviour in selecting the raw land to be converted to serviced plot has never been discussed thoroughly. Giving attention to understand the formal private sector in selecting land for development is thus important. This kind of research will not only advance the knowledge for its own sake i.e. the advancement of behavioural approach in land development studies, but it will also advance the knowledge that will have an impact on policy and action in the real world i.e. reconfirmation or rejection of the recent accepted policies on urban development, particularly those related to the provision of basic infrastructure. More over, a shift of the research focus towards formal private sector' behaviour in responds to the land market, has also been in the agenda for research.<sup>4</sup>

### **Objectives and Hypotheses of the Study**

The development phenomena in *Jabotabek* area has been the subject of much interests and research. Studies in the area have been focused on the dynamic and pattern of the development (Browder, Bohland and Scarpaci, 1995; Henderson, Kuncoro and Nasution, 1996; Noe, 1991; Jones and Mamas, 1996; Leaf, 1994), some have been focused on the impact of the development (Douglass, 1989; 199; Firman, 1994; Firman and Dharmapatni, 1994; Leaf, 1996; Dowall and Leaf, 1991) and some on the policy instruments for land management (Devas, 1983; Archer, 1994). There are few if any research on the behaviour of the formal private developers. The rapid escalation of private developers' role and its significant involvement in land development in the area, makes it just the place for the assessment of private developers' behaviour in land development process.

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<sup>4</sup> In particular the result of Fitzwilliam meeting suggested the following research: 1. Analysis of land market operations in terms of land process, the quality and location of land supplied and demanded by residential, commercial, industrial and governmental users; 2. Analysis of the land development process in terms of actors and institutions; 3. Analysis of the role of Government and the role of cultural factors shaping property relations (Fitzwilliam: 1991). See also: Healey & Nabarro, (1990); Baken RJ and Van der Linden (1992); Doebelle (1994).

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Within the above framework, the study is designed to assess the behaviour of formal private land developers in developing land for housing, particularly their response to land price, accessibility to centres of activities and availability of infrastructure for their land development project.

It is hypothesised that land price has been the most important factor for locational decision resulting in the sprawl of the development. As the land price is the primary decisive factor, this has led to the accumulation of low-cost land which profoundly influences the supply of land for shelter in the region.

### **Gap in the Land Development Research and the Contribution of Prior Research**

Land studies in developing countries are mostly emphasised on the demand side and on the low-income segment of the market. Most researches on land development are also heavily focused on the role of the state/Government and the issues of accessibility of land for the poor (Baken and Van der Linden, 1992; Doebelle, 1994). The formal private developers' behaviour in selecting raw land to be converted to serviced plot, hence in supply side, has never been discussed thoroughly. This fact is creating a gap in the land development research, particularly in the topic regarding the behaviour of developers.

The conventional wisdom about developers' behaviour on land development is usually based on the neo-classical approach. The developer as a firm may pursue several objectives, but there is one particular objective that most firms pursue. This common objective, in economic term, is known as the maximisation of the firm's net worth, often referred to as profit maximisation (McCormic, 1985) or as Cyert & March stated:

*"Assuming that the firm is operating within a perfectly competitive market, the generally received theory asserts that the objective of the firm is to maximise net revenue in the face of given prices and a technologically determined production function." (Cyert & March, 1992:5).*

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Greer (1979) was more specific in stating that developers, regardless the types, have in common a general approach:

*"All is concerned with the ability of a property to generate a return on investment over and above the cost of acquisition."* (Greer, 1979: 11).

Although the profit motive of the firm is largely accepted, yet how the firm, in order to satisfy its objective, behaves in the land development has not been satisfactorily explained, particularly with regard to the case of developers in the developing countries.

The earliest attempt to explain the behaviour of the actors involved in land development inspired by the neo-classical approach of land use pattern was perhaps demonstrated by Muth (1969). His theory and empirical study were based on pure supply and demand on housing in a city. He argued that:

*"The proportion of land area used for residential purposes, of course, depends upon the demand for land as derived from the demand for housing and upon the supply of land to the housing industry."* (Muth, 1969: 84).

He also maintained that housing demand within an urban area is influenced by transportation cost. That is to say that the demand of housing declines when the transportation cost increases. Furthermore his empirical studies in Chicago implies that housing producers, in supplying houses to match the demand, were influenced by the accessibility to the Central Business District (CBD). This was shown by the intensity of residential uses by the producers of housing. His works inspired the notion that developers, in order to maximise their profit, will look for land with good accessibility to CBD.

Behavioural studies of actors involved in land development are basically focused on the regularities in the actors' behaviour during the decision making process. The pioneer of this kind of study was the North Carolina group (Weiss et al., 1966; Kaiser, 1968; Kaiser and Weiss, 1970). However, unlike the previous

'behaviour' studies on land development, which were purely based on supply and demand or focused on the household as the consumer, or the consumer's decision to select the location which would fit their need, the North Carolina group emphasised on the developers as the decision agents who supply houses. The consumers then make their decision to locate on the developed site. Their study was grounded on the premise that:

*"... residential development is largely a speculative commitment not by actual consumer but by the developer on the basis of forecasting. Therefore, it is argued, the developer's decision lends itself to be relatively independent in investigation."* (Kaiser, 1966 as quoted by Hok, 1987).

Based on that premise, Kaiser in 1968 studied the locational decision factors for residential developers in Greensboro, North Carolina. He concluded that large-scale operators tended to prefer locations that have public water and sewer. There was also strong tendency for large-scale operators to prefer the more accessible location of higher socio-economic rank near existing development (Kaiser, 1968). These findings are similar to the study conducted by Michael A. Goldberg (Goldberg, 1974) in Vancouver, Canada. Goldberg's findings suggest that proper zoning, accessibility to the trunk sewer, price of the land and availability of developable land were significantly more important than other factors.

Hok (1987), unlike the North Carolina group who focused on the location decision, emphasised his study on the relationship between the structure and operation of developers with their performance in the development control process. His study in Scarborough, Ontario suggests that the size of firms appeared to be the most important variable in explaining their behaviour in responding to development control process. Furthermore, he concluded that large firms or any well-financed firms were able to buy up approved land, serviced it, and then released it to builders. Financially capable firms were also

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able to buy up approved land which was not entirely ripe for development and hold it for later use or sale (pp. 32).

In Europe and particularly in Britain, the behavioural approach has also been adapted. Drewett (1973) is one of the scholars who are interested in the developers' behaviour in England. He argued that the process of site selection for residential area tends to be more *ad hoc* in many ways and less systematic. However, he maintained that ideally the decision to buy land is influenced by planning condition, estimated development cost on the site, estimated type of housing demand and selling rates, size of the site and type of contract with landowner. His argument is not far from Craven and Pahl (1967) and Craven (1968) who studied the private residential in Kent. Craven argued that the availability of land, not only in terms of quantity, but also in the size of the available sites, was the important factor which affected the decision to select the site and to develop the land. He also maintained that land price was an important factor affecting the decision to locate a project. This was due to the fact that the relatively low prices of land could ease the financial problem of the developer.

Research on the developers' behaviour in providing facilities suggests that their decisions are influenced by at least two factors. Firstly, in order to attract potential buyers, developers put an effort to comply with buyers' needs. Knack in Planning Magazine October 1995 reported that according to Gaines, a director of a real estate consulting firm in Houston, "amenity packages" in new development were standard, with golf course as a particularly popular item. However, Gaines added that in fact what buyers wanted were a certain level of planning and a certain level of "community" (pp. 4). Achieving community, according to the same report, requires strong programs which include a mixture of housing types, retail components, schools, and an open space framework (pp.5). Furthermore, Knack reported that according to a survey conducted by Arthur Andersen Real Estate Advisory Service in America, the factors influencing buyers in selecting a residential project were respectively: proximity

to good school, master-planned development, affordable house price, proximity to employment, shopping area and golf course as well as a secured housing entrance. Secondly, the above facilities are provided apart from the facilities required by residential development standard and exaction<sup>5</sup> policy adopted by the Government. Traditionally these facilities include streets and roads, water mains and sewers, as well as parks and open spaces (Marcus, 1988).

These above arguments seem to be recognised as the accepted factors which can maximise profit, if applied when selecting and developing site for residential use. This conventional wisdom, however, needs to be examined carefully. Firstly because the earlier studies (notably: Muth, 1969; Mills, 1972) were based on supply and demand in a perfect land market which is hardly found in reality. The approaches were also based on the assumption that owner-occupiers or users, who seek land for its use value, were the important agents in the locational decision. This is certainly different from developers who seek land for its development value (or exchange value) and operate in imperfect development market (see e.g. Malpezzi, 1994). Secondly, the later behavioural studies (notably Kaiser, 1968; Goldberg, 1974; Weiss et al., 1966; Carven, 1968; Drewett, 1973), even though they were focused on the developer as the important agent (the supply side), were done in the country where planning regulations (zoning or other development control regulations) are strictly implemented, which is not the case in developing countries (Lee, 1994; Dowall, 1991; Fergusson and Hoffman, 1993). Thirdly, the scale of development studied is significantly different from the development in Mega-cities such as *Jabotabek* area.<sup>6</sup> Fourthly, the social-economic condition and culture of the community surveyed in USA are different from those in developing countries (see for example: Leaf, 1994, 1993).

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<sup>5</sup> Exaction or in Britain known as Planning Gains : "... are requirements placed on developers through land use planning control to supply some public facilities or amenities as a condition for permitting development..." (Alterman, 1988: 4).

<sup>6</sup> Kaiser's study was done in a relatively small area with a radius of 6.6 miles, furthermore large scale developers in his definition are those who develop 100 residential lots per year (Kaiser, 1968: 356-357). See also Chapter V for further discussion on the development in *Jabotabek* region.

In developing countries, unsurprisingly, less is known about the behaviour of formal private developers particularly on their locational decision. This is because much of the research on land development being done in developing countries have been preoccupied by the low-income segment of the market, in which formal private developers rarely operate. Dowall (1992) for instance argued that:

*“In most developing country cities, the legal, formal sector is largely irrelevant in terms of meeting the basic shelter needs of low and moderate-income households.”* (Dowall, 1992:15).

Doebelle (1994) noted that there are three focuses in current research on urban land market and land policy in developing countries; research with an emphasis on the role of a unitary state; research with an emphasis on a two-party paradigm and underestimation of the complexity of actors involved in urban land market; and research with an emphasis on the importance of security of legal tenure, as opposed to the security of “a claim on the system” (Doebelle, 1994). This had been done within the concept of equity, as this was the leading issue in the 1970s-1980s. The chief outcome of the works was perhaps the belief that the informal sector could do much better in providing land for housing the poor than the formal sector (see for example: Baken and van der Linden 1992; Angel et al., 1983; Hardoy & Satterthwaite, 1989). Furthermore, there is also a tendency to assume that the formal land market will neglect the poor (Baken & Van der Linden 1993; Dowall, 1992; Durand-Lasserve, 1990; Barros, 1990) and that formal private development tends to displace low-income people (see e.g. Silas 1983; Batley, 1982; Payne, 1989).

The limited scope of land and housing studies in developing countries is not unrecognised by scholars as it has been agreed that:

*“... (a) It is inappropriate for analyses to focus solely upon low-income areas. They should seek to embrace all segments of the land market. (b) It is desirable that we seek to identify the broad conditioning processes that may*



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*be moving these segmented markets in a particular direction.*" (Fitzwilliam Memorandum, 1991: 625).

Yet, few researchers have analysed the behaviour of formal land developers in land development in developing countries.

The following studies regarding the developing countries that have been so far carried out, did not particularly analysed the behaviour of formal land development. Foo (1992a, 1992b), for instance, studied private developers in Bangkok who developed housing for low-income people. His study suggests that it was not due to the efficiency on land market mechanism that private developers built low-cost housing for low and moderate-income, but it was more due to the suboptimal land banking. Developers who built low-cost housing had apparently acquired the land before the price increased and thus eliminating the land price as the main market impediments (Foo 1992a: 1145). Furthermore he also suggested that without any effort to improve the efficiency of input market, the formal private sector's involvement in providing low-income housing in Bangkok would diminish in the future. His finding contradicts an earlier study in Bangkok by Dowall (1989) who suggested that Bangkok land market was performing well and the private land and housing development sector was shifting into low and moderate price range.

Malpezzi (1990, 1994) based on his study in the formal housing market in Malaysia suggested that there was a possibility for formal market to benefit low-income people. Other study in this field is focused on the relation between land price and affordability of low-income people (Ward, Jimenez and Jones, 1993; 1994), and on links between formal and informal land development (Durrand-Lasserve, 1990).

With regard to Jakarta and Indonesia, two studies are particularly important in giving the picture of the land development and developers in Indonesia. These are: a study on the market for shelter in Indonesian cities carried out by Struyk,

Hoffman and Katsura in 1988-1989,<sup>7</sup> and a PhD dissertation for University of California at Berkeley written by Michael Leaf in 1991. Although they were not directly focused on the behaviour of formal developers, both studies have described the process of land acquisition by private formal developers.

The study by Struyk, Hoffman and Katsura was aimed at drawing policy instruments for housing provision in Indonesia. This study is comprehensive and extensive. However, as this study was focused on housing provision, the locational decision of developers was not discussed. This study, nonetheless, provides insightful information on land and housing regulation implemented in Indonesia and the land development process generally practised. With regard to the formal development this study reveals that lobby and negotiation to the local officials as well as central Government officials were the important steps in starting the projects (pp. 126 - 128). Unlike Struyk, Hoffman and Katsura, in his study Leaf (1991) basically used sociological approach to explain the phenomena of land and housing development in Jakarta. He maintained that legal and administrative dualism has influenced the policy for land and housing in Indonesia and particularly in Jakarta, creating competition between popular and private sectors.

Other studies notably Ferguson and Hoffman (1993), Lee (1994), Archer (1993, 1994), Dowal and Leaf (1991) provide useful insights on the land market and land policy for this study.

### **Thesis Organisation**

This thesis is organised into three parts and eight chapters. Part one sets up the research framework. Firstly, chapter one identifies the issues, the objectives and the hypotheses of the study as well as identifies the gap in the prior research on land development. Secondly, in chapter two, the existing approaches in land development study are reviewed. This chapter also discusses the different

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<sup>7</sup> The study was then published as a book in 1990.

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approaches in land development study, particularly in explaining the location of land developed for residential purposes. Thirdly, chapter three identifies the appropriate methodology for this research and the actual research process.

Part two describes the land development and residential developers in Indonesia, focuses on the development in the study area. This part is divided into two chapters. Firstly, chapter four describes the land and housing policy in Indonesia. This chapter explains the nature of ownership rights and the planning system, as well as the permit system for land development. Guided Land Development (GLD) and Housing policy are also explained in this chapter. The chapter suggests that despite the availability of substantial instruments for regulating land development, the implementation of such regulations has been very poor.

Chapter five examines the spatial restructuring process undergone in the study area. This chapter suggests that the restructuring process undergone in *Jabotabek* area has, in a large extent, been driven by large-scale land speculators and developers. It also suggests that the sprawl of development and the choice of formal houses are largely influenced by the decision of private sector land developers.

Part three examines the developers' behaviour in land development and its implications on the land and housing policy. This part is presented in three chapters: chapter six using empirical evidences from households survey and interviews with the developers, examines the nature of development. It also explains the profiles of the consumers of housing produced by private developers in the area. This chapter also explores the characteristics of land development projects and the profiles of the developers.

Chapter seven describes the behaviour of private developers with particular regards on their locational decision, decision to build and the financial sources

for land development and the supply of land for shelter in the region. Finally, chapter eight concludes with the findings of the research, describes implications on the land and housing policy and identifies the areas for future research.

## **Chapter II**

### **Land Development: A Review of Literature**

#### **Introduction**

In the past two decades land development industry enjoyed boom conditions. The boom is not only experienced by the developed countries, (Healey and Nabaro, 1990; Van der Krabben, and Lambooy, 1993a), but also by the developing countries (Misra, 1991; Wadya, 1983; Dowall: 1990; Foo, 1991; Yap, 1992).

This is perhaps due to the considerable growth of economic development during that period. The consequence of the economic development is the demand of land, which is visible in the urban areas, peri-urban and rural areas as well. In the urban areas the development has been the cause of the change of the use of land. This is particularly seen in the inner city area as urban regeneration. In the peri-urban the development penetrates far into the rural areas and converts agricultural land into urban land.

The boom is also a reflection of the increasing private participation in development as suggested by the structural adjustment programme<sup>1</sup> The interesting aspect of this growing private participation in land development, particularly for residential development, are its speed of growth and its sprawl. But why is there a residential development in such distant places from the city centre? This question is not new, yet there are almost no sufficient explanations, particularly with regard to the developing countries. Are the phenomena in developing countries duplications of what have occurred in the western countries? Or are they different?

Scholars have tried to explain land use phenomena through different approaches. This is because the topic covered by the simple phrase 'urban land use' is vast

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<sup>1</sup> The change of internal economic environment of the country toward a more productive environment is the main aim of structural adjustment programme. This is done by encouraging the private sector participation to replace the inefficient administration of the Government (World Bank 199: 32; see also Harris, 1994). The impact of structural adjustment programme on economic growth and the increasing private participation in land development, however, is still debatable.

and includes contributions from all disciplines (Carter, 1981). On the other hand, the different approaches have also provoked debates to satisfy the need for a rational explanation. There are considerable literature on the debates between Neo-classical and Marxist approaches, particularly on the matter of rent and land value in land and property development (Harvey, 1973, 1989, 1985; Haila, 1990; Luithlen, 1992; van der Krabben and Boekema, 1994; Evans, 1992; Ball, 1977, 1992; Ward and Jones, 1994), which may be used to explain the phenomena.

There has also been a considerable body of relevant research in the US and Canada, particularly on the explanation of developers' behaviour in selecting the location and in dealing with development control processes (Kaiser, 1968; Kaiser and Weiss, 1969, 1970; Weiss and Kaiser, 1968; Goldberg, 1974; Hok, 1987). These studies explain the complex interrelation between the development actors in built environment. They also emphasised the importance of economic and social processes. In the UK and Europe the issue of developers' behaviour became widely discussed after the work of Healey as she noted that:

*"... these approaches - institutional analysis, neo-classical location theory and land economics, and Marxist economics- provide useful directions for understanding the development process, they lack the capability to address a fundamental dimension of our understanding of development process. This is in relation between the way actors behave in deploying resources to realise specific investments, with which much of the real estate literature<sup>2</sup> is concerned and the broader processes, which drive the strategies and interest of the various actors involved ..."* (Healey and Barrett: 1990:89).

Their articles have been followed by a still growing contribution to this field of research. Healey (1992) proposed a descriptive institutional model of the development processes, trying to explain the social relations of development projects. Adams (1994) discussed the extent of landowner's behaviour and the imperfections and failures in land and property markets. In a similar approach, Van der Krabben and Lambooy analysed property development process in the

<sup>2</sup> However, an examination of Healey's and Barrett's bibliography does not yield 'real estate' literature, which deals with the behaviour of the actors but seems to focus on the financial aspects of property development.

Netherlands, its actors and organisations as well as the driving forces behind it. They also examined the effects of market imperfections and market failures on urban property markets (van der Krabben and Lambooy, 1993a).

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### **Approaches in Land Development Theory**

Scholars have tried to explain the phenomena of land development, particularly its pattern, growth, value, rent, and how the market allocates land uses and accounts for their development. The range of study to explain these phenomena is vast, one scholar classified the approaches into Ecological, Economic and Activities system (Carter, 1990). Others classified them into General Neo-classical Views and a variety of Institutional and Marxist economist (Haila, 1990). Monk et al. (1991) classified the approaches into Comparative Static and Behavioural. However, for the purpose of this study, the different approaches shall be identified into three mainstreams<sup>3</sup> as follows: Neo-classical approach, Marxist approach and Institutional and Behavioural approach (Healey and Barrett, 1990; Healey, 1992; Healey and Nabarro, 1990; van der Krabben and Lambooy, 1993). Among them the Neo-classical economic approach is the first one.

<sup>3</sup> In this context, ecological approach as seen in the works of Burges (1925), Hoyt (1955), Harris and Ullman (1945) might be best classified as a descriptive theory for explaining **land use pattern**. This approach has been discussed extensively and is considered as having reached an impasse by Carter. He argued: "*Its predominant economic bias has little to offer besides the more rigorous theoretical construction of the thoroughgoing economist.*" (Carter, 1990: 187).

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**Neo-classical Approach**

It was David Ricardo who at the beginning of nineteenth century published his work, *Principle of Political Economy and Taxation*, which basically is a treatment of agricultural land. He maintained that:

*“... the most fertile land is the first put to use, and the less favoured land is put to use as the demand for agricultural products increases. The rent<sup>4</sup> on the most productive land is based on its advantage over the least productive, the competition among farmers insuring that the full advantage goes to the landlords in the form of rent. This advantage is equal to the value of the difference in the productivity of land.”* (as explained by Alonso, 1964: 3).

Ricardo also recognised that land nearer to the market for farm products is more advantageous because the transport cost of its products is lower than that of more distant land. In other words different rents are obtained from land of different qualities, be it come from the accessibility or from the fertility of the land.

However, the more extensive concept constructed from market proximity was developed by J.H von Thunen, a German economist, who concentrated on the differences in relative transport cost among different types of agricultural productions. He argued that agricultural land develops a pattern that shows concentric zones around a market. Each zone is defined in terms of crop specialisation with distance from the centre being inversely associated with land intensity of production. The most distant land in cultivation yields no savings in transportation, and consequently there is no rent at that location. His theory basically explains the importance of transportation on land rent differential over space (Richardson, 1978).

Those earliest theories of land use were broadly based on the agricultural land, which somehow are different from urban land. It was RM Hurd who pioneered a theory in the field of urban land. RM Hurd, in the beginning of this century,

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<sup>4</sup> Rent as an economic term is defined as the difference between the price obtained for the product of a given area of land and the total cost of production (see McCormic et al., 1983). The use of rent for explaining the phenomena of land development has been in the debate of scholars. See for example: Haila, 1990, Harvey, 1973; Evans, 1992; Ball, 1977, 1992.



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applying von Thunen's doctrine, argued that:

*" As a city grows, more remote and hence inferior land must be utilised, and the difference in desirability between the two grades produces economic rent in locations of the first grade, but not in those of the second. As land of a still more remote and inferior grade comes into use, ground rent is forced still higher in land of the first grade, rises in land of the second grade, but not in land of the third grade, and so on. Any utility may compete for any location within a city and all land goes to the highest bidder." (Hurd as quoted by Alonso, 1964: 5).*

In this argument urban land is seen in hierarchical pattern of ground rent with the land near the centre of the city having the highest value while the land outside the city is inferior in value. He then concluded that the value is dependent on nearness. But, as explained by Carter, Hurd noted that nearness is a relative term and has to be evaluated in terms of the growth and physical structure of the cities on the one hand and the nature of the use required on the other hand (Carter, 1990: 189).

In a similar argument, Alfred Marshall introduced the concept of situation value, arguing that the site value is equal to the agricultural rental and the location value. He emphasised the importance of location within the city and concluded that the industrial demand for land is parallel to the agricultural one (Drabkin, 1977). That is to say that there is a competition between potential users, and location with greater advantages will be captured by the highest bidder.

These ideas became the basic approach of the land economics, and these were further developed by Robert M. Haig in 1926. He saw, in Carter's words, that:

*" ... rent as the charge for accessibility or the saving in transport costs and invoked a bidding process to determine the occupancy and use of land ... "* (Carter, 1990: 189)

Although his idea is still in line with Marshall and Hurd, he, however, added a significant thought on the complementarity of rent and transportation. He hypothesised that the better the transport the lesser the friction. This is because he saw transport as a device to overcome the 'friction of space' or the hindrance to

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perfect or immediate accessibility, for without such friction there would be no transport cost and all location would be perfect (Carter, 1990).

In 1961, Lowdon Wingo developed a concept of urban spatial structure based on the framework of equilibrium theory. His concept mainly dealt with residential development. Using mathematical model he demonstrated the complementarity of rent and transports cost, and thus, retained and strengthened the view of Haig and Hurd on the importance of transportation (Drabkin, 1977). William Alonso (1964), in his book: *Location and Land Use* introduced two further variables, which had been neglected in the previous work. First, the quantity of land which each user wishes to acquire. Second, the amount of disposable income which one is willing to spend for land and travel cost apart from other expenditure including goods services and saving. He then developed a model of the interaction of land values and land uses. He saw the locus opportunities as a surface generated by the interrelation of three variables, namely: amount of land, amount of goods and services and distance from the centre. The logical consequent of this approach is that the location decision, as it may be represented by the price which fits to certain use, is modelled in terms of trade-off between accessibility to job, markets, services in the city and the use of space.

Up to this point, critics were addressed at the restricted type of the model and the ignorance of the problems of inelastic supply of land. Thus the most recent literature in this subject tried to modify the assumption by introducing time dimension, future expectation and uncertainty in the model. Mills (1969) and Muth (1969) for instance, also presumed utility-maximising behaviour on the part of individual as their basic theories of urban land value. That is to say that, in residential land use individuals trade-off the space for housing, transport cost to job, and the need for all other goods and services, within an overall budget constraint.

The trade-off theory was modified, however, when negative externalities such as crime, pollution and traffic congestion in down town were considered.

McDonald's study of Chicago (1979) for example, shows that variables such as percentage of black population, income level, crime, measurement of high housing quality and air pollution are important in explaining the spatial pattern of land values. Therefore, it is argued that while households wish to minimise transport cost, they also seek better amenity, which is associated with better environmental quality. In this context Richardson (1978) introduced the concept of 'positive externalities'. He added, in his model of residential location, variables of dwelling characteristic, neighbourhood and environmental quality. He suggested that:

*"The house price and rental surfaces are highly irregular, peaking in areas of superior environmental and neighbourhood quality that maybe in some distance from the city centre. These surfaces bear little resemblance to the smooth cones predicted by the trade-off gradient."* (Richardson, 1978: 29)

Market mechanism is the important factor in Neo-classical approach. It views that an individual's decisions are made within a market framework. Development activity is basically a response to demand. This would achieve a maximum benefit if supply can produce development in the right time, right place and right price. What should be noted here is that these theories basically see residential location from the individual's point of view, thus the demand side or the buyer. Based on the assumption that supplier would have to satisfy the need of the buyer, location for residential project will also comply with those theories.

Neo-classical economic approach is basically grounded on ideal supply and demand in the perfect market so that they will always come to the equilibrium. As an ideal perfect market would never occur, Neo-classical approach is always based on a set of assumptions such as: a town with homogeneous population from the point of view of income and consumption as in the case of Wingo's model (Drabkin, 1977), or on a featureless plain city, all land is of equal quality, all land is ready for use without improvement, land is freely bought and sold. Both buyers and sellers have perfect knowledge of the market, no legal planning restraints nor social restraints and the city is regarded as a two dimensional unit with no vertical element as in the case of Alonso model (Alonso, 1964).

In reality supply is not always responsive to market demand due to several

factors, i.e. restriction for development as directed by planning system, landowners are not willing to sell their land for development for particular reasons. As noted by Monk, et al. (1991), recent Neo-classical approaches demonstrated by the work of Evans (1983), Wiltshaw (1985) and Neutze (1987) have attempted to explain the above phenomena. It is argued that, at any given time, the supply of land depends upon the best alternative use both now and in the future and that land is not homogeneous in this dimension (Monk et al., 1991). Their work, unlike those of their predecessors (notably, Alonso, 1964; Wingo, 1961; Muth, 1969; and Mills, 1972) who focused on land in demand side, focused on the supply side of land market. They argued that land supply at urban fringe has an upward sloping curve rather than a horizontal one, this is because:

*"...(1) the non-financial direct utility which is obtained from occupation and ownership of land varies with its use and between owners. (2) Land use decision and land values depend on expectations about the future as well as on present conditions in the market, and (3) uncertainty about future condition results in owners expectations varying and the greater the uncertainty, the greater the gains from differing development."* (Neutze, 1987: 387)

Nevertheless, the above works were still based on the assumption of a monocentric city model as developed by von Thunen. The recent seminal work (Fujita et al. 1999) attempted to explain the phenomena of multiple subcenters which resembles more the modern metropolitan condition. They took into account consumer behaviour, the existence of concentrations of activities in multiple locations and transportation cost, producer behaviour, the price index and the home market effect. They argued that:

*"...producers want to locate close to their suppliers and to their consumers - which mean that they want to locate close to each other ...the immobility of some resources - land certainly, and in many cases labour - act as a centrifugal force that opposes the centripetal force of agglomeration. And the tension between these centrifugal and centripetal forces shapes the evolution of the economy's spatial structure."* (Fujita, et al. 1999: 345)

However, as represented by Healey (1991), critics to Neo-classical approach still pointed out that the approach fails to take account of:

*"... 1) diverse forms of demand, particularly the difference between user's and*

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*investor's demand; 2) the non economic interest of those involved in development (particularly landowners' decision to sell); 3) the very considerable uncertainty in assessing future gain, due to the time scale of the development process and the limited number of transactions in land and property markets; 4) the distortions produced by the valuation and appraisal methods used to assess risk and reward, for example, the different conclusions of residual and comparative approaches to establish land price; 5) the complexity of the development process itself."* (Healey, 1991:222)

### **Marxist Approach**

While Neo-classical approach uses demand of land as the explaining variable in urban development, Marxist approach centres on the struggle between landowners and other capital owners as the explaining variable. This is to say that according to Marxist thinking, the society's resources are distributed by the class struggle between capital and labour (Adam, 1994). Marxist approach stems from the issue of the relationship between use value and exchange value, and the conceptualisation of rent (Harvey, 1973, 1985, 1989; Rhind and Hudson, 1980; Low, 1990; Luithlen, 1992; Haila, 1990; Houghton, 1993).

David Harvey (1973) in his *Social Justice and the City* explored the different notions of *use value* and *exchange value*<sup>5</sup> to better understand contemporary urban problems. He, in particular, suggested the use of Marx's treatment of use value and exchange value to explain the forces producing particular land use configuration within a Capitalist City. He argued that:

*"For this (theory of urban land) to emerge, we must focus attention on those catalytic moments in the urban land-use decision process when use value and exchange value collide to make commodities out of the land and the improvement thereon. At these moments decisions concerning the allocation of activities and resources to land are made. And it is particularly important to an understanding of what happens at those moments to bear in mind the very special characteristics of both land and the improvements with which that land is blessed."* (Harvey, 1973:160)

According to Harvey, land use theories generated out of Neo-classical micro-

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<sup>5</sup> "Use value represents the utility or profitability that the land or property affords to a particular user in a particular use. Exchange value represents the expectation of what the particular land or property would fetch, if it were to be offered for sale." (Adams, 1994: 18).

economics are focused upon exchange value, while a variety of land use theories which focus on patterns of use as generated in concentric zone, multiple nuclei and sectoral theories<sup>6</sup> are nothing more than generalised descriptions of patterns of use value. They fail to explain the numerous and diverse actors involved in the land development process. Furthermore, Harvey discussed the perspective of each of the main groups operating in the housing markets: (Harvey, 1973: 163-166)

- (i) The *occupiers* of housing. They are basically concerned with the use value and act accordingly. Owner-occupier may be concerned with exchange value at two points - at the time of purchase and when major repairs force them to look at their budget constraint and when they contemplate a move.
- (ii) *Realtors* (estate agent). They are concerned with the exchange value as they try to maximise profit through buying and selling or through charging transaction costs for their services as intermediaries.
- (iii) *Landlords*. They mostly deal with the exchange value. They regard houses as commodities that can be exchanged for money. Owner-occupiers who rent out a portion of their house may have dual objectives, as occupier of part of the house they are concerned with the use value, but renting out part of the house is certainly concerned with the exchange value of the house.
- (iv) *Developers and the housing construction industry*. They are involved in land development process by creating new use value for others in order to realise exchange value for themselves. As developer is the main actor in this study, it is worth to quote at a length Harvey's explanation of developers.

*"They therefore have a strong vested interest in bringing into being the use values necessary to sustain their exchange value benefits. There are numerous ways (both legal and illegal) for accomplishing this, and certainly this group in the housing market has a strong vested interest in the process of suburbanization and, to a lesser degree, in processes of rehabilitation and redevelopment. In much the same way that Realtors are interested in increased turnover, so developers and construction firms are interested in growth, reconstruction and rehabilitation. Both these groups*

<sup>6</sup> Carter (1990) classified the general schemes proposed by Burgess and his followers as an ecological approach because the schemes were adapted from the field of human ecology. An extensive discussion of this ecological approach is presented by Carter (1990).

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*are interested in use value for other, only in so far as they yield exchange values to themselves.*<sup>7</sup>" (Harvey, 1973: 165).

- (v) *Financial institutions.* These institutions play an important role in land development process particularly because they provide financial recourses for the other actors. Fundamentally, the financial institutions are interested in gaining exchange values through financing opportunities for the creation or procurement of use values.
- (vi) *Government institutions.* Traditionally the existence of these institutions is aimed at production of use values as an effort to fill the lack of use values available to the consumers of housing.

According to Marxist proponent, Neo-classical approach has failed to explain the complex interrelations between these actors. What is use value for one is exchange value for another, and this can not be simplified, and thus any attempts to explain the development process without taking into account this complex relationship of the actors and the value of land does not realistically portray the fact.

The second concern of Marxist approach is in the definition of rent. Rent has a critical role in urban land use theories particularly those with Neo-classical approach as seen in the works of Alonso (1964), Mills (1969), Muth (1969) and even in the earlier works on land use as demonstrated by Von Thunen and Ricardo. Harvey (1973) presented his Marxist interpretation of rent. He argued that:

*"It is better to regard rental values as being simultaneously influenced by alternative and neighbouring uses (and here general equilibrium thinking is relevant). This means that rent is determined relational over all spheres of production in all locations, with future expectations also incorporated into the calculation. Land and improvements are, according to real estate practice, frequently valued at their highest and best use rather than with respect to their actual use."*<sup>8</sup> From this arises the "important sense" in which the value of any one parcel of land "contains" the values of all other parcels

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<sup>7</sup> Stressing by author.

<sup>8</sup> Stressing by author.

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*at the present time as well as the expectations held of future values.” (Harvey, 1973: 186)*

This statement is in contradiction to Neo-classical approaches, which connect rent only to relative space referring to the distance between points.<sup>9</sup> Harvey believed that there are absolute space and relational space beside the relative space. That is to say that:

*“Structures, people and land parcels exist in a manner that is mutually exclusive to each other in a three dimensional, physical (Euclidean) space.” (Harvey, 1973:168)*

Harvey, unlike Neo-classical urban economists who think that the use of land is put to determine the value, suggested that land value can determine use as he put out:

*“If absolute and monopoly rents are dominant in the determination of land value at central locations then it is land value which determines use. If differential rents dominate then it is use which determines land value.”<sup>10</sup> (Harvey, 1973: 187-188)*

Marxist approach as represented by Harvey also recognises the importance of symbolic representation of space and the monopoly rent that goes with it. In particular he took ancient city as an example of space where its organisation was produced as a symbolic recreation of a supposed cosmic order. He argued that in modern cities the centre is still a prestigious location. And therefore has a

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<sup>9</sup> In the concept of relative space, the movement of people, goods, services and information takes money, time, energy and the like to overcome the friction of distance. Distance, therefore, is relative because it depends upon the means of transportation. This concept is particularly apparent in the works of Alonso (1964), Hurd (1924), Wingo (1961), Mills (1969) and Muth (1969). Harvey (1973) argued that land use analysis has to take into account the concept of relational space in which a point in space ‘contains’ all other points, and that no people or thing can occupy exactly the same location.

<sup>10</sup> Marx classified three types of rent in a capitalist mode of production (Rhind & Hudson, 1980), those are: differential rent, monopoly rent, and absolute rent.

*“Differential rent arises simply from the difference between an individual firm’s production price for a commodity and the general production price of that commodity in a given sphere of production. ... Monopoly rent arises because it is possible to charge a monopoly price for a commodity. That is, a price independent of either the price of production or the value of the commodity. ... Absolute rent is distinguished from monopoly rent in that, of itself, it gives rise to a monopoly price, in contrast to an independently determined monopoly price arising from conditions of monopoly within a sector of production, which allows a monopoly rent to be gained.” (Rhind & Hudson, 1980: 233).*



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monopoly rent.

Marxist approach sees that in a capitalist economy, rent arises in monopoly, in differential and in absolute forms, and once rent arises, it serves to allocate land to uses. Rent can be seen as an allocative device that leads to efficient capitalist production pattern if use determines value. But when value determines use:

*"... the allocation takes place under the auspices of rampant speculation, artificially induced scarcities, and the like, and it loses any pretence of having anything to do with the efficient organisation of production and distribution."*  
(Harvey, 1973: 190)

Developers and speculators are interested in the exchange value, and as the developers apprehend that increasing exchange value by transferring an agricultural use value into urban use value is high, they choose locations which will provide them the maximum gain.

Critics to Marxist approach were usually centred to the fact that this approach is overwhelmed with the structural dynamics of the mode of production, but there has been only limited interest in, and considerable controversy over, how land and property should be treated (Healey and Barrett, 1990). The approach is also criticised on its over emphasis on the historical development. Thus, as Richardson (1978:96) put out:

*"The Marxist critique is more attractive as a diagnosis than as prescription."*

### ***Institutional and Behavioural Approach***

Institutional approach attempts to analyse the property development process by taking into account the complexity of the events and agencies involved in the process (Healey, 1992, 1997). Basically this approach insists that there is a special characteristic in land and property development, which demands an institutional arrangement. Thus, central to this approach is the relation between institutions involved in land development. It is argued that the urban spatial structure is the outcome of processes where demand for land and property by

individual firms, households and institutions meets with the supply of land and property through individual actors operating in the supply side. Therefore, the behaviour of individuals, firms and institutions is important in this approach.

Healey and Barrett implicitly argued the importance of the approach as they observed that:

*"The role of land, ownership, the organisation of the construction industry, the nature of the finance invested in urban development and the significance of intermediaries, from developers to property consultants, lie hidden or are given little more than a passing reference in many historical accounts of urban development."* (Healey and Barrett, 1990: 89)

Although Healey's and Barrett's argument cited above has perhaps inspired the recent study on land development, particularly in the UK and Netherlands (notably: Healey and Nabaro, 1990; Healey, 1992; Adam, 1994; van der Krabben and Lambooy, 1993), it is worth to also look at the earlier works.

WH Form in 1954, as noted by Carter, considered the role of social reality in the determination of land uses. He argued that the determination of land uses is not solely an economic abstraction. He stated that there are four dominant organisational complexes in the land development process: the real estate and building businesses; larger industries, businesses and utilities; individual home owners; and local Government agencies (Carter, 1990). The problems then are the relationship among the institutions particularly with regard to their function in the land use market, the nature of the internal organisations, the decision making process notably concerned with selling and or buying land.

Considering this complexity, Chapin in 1965 developed a framework for interpreting urban land use structure via system approach. He put out:

*"With a system approach, phenomena selected for study are classified by the way in which they are organised and by the characteristic processes or behaviours associated with each phenomenon."* (Chapin, 1965: 28)

He then argued that there are three systems of particular relevance to urban

spatial structure: activity system, land development system and environmental system. According to him activity system concerns the way man and his institutions organise their affairs on day-in and day-out basis in the pursuit of human needs and interact with one another in time and space (p. 28). Land development system is focused on process of the change of land uses to adapt with the need for human use. The principal agents which are involved in the process are: pre-development landowners, developers, consumers, financial intermediaries and public agencies (p. 30). The third system has to do with biotic and abiotic states generated by natural process (p. 30).

After this seminal works, some other theories within this institutional framework have arisen. Three main themes of enquiry are central to this approach (Bassett and Short (1980) as quoted by van der Kraben and Lambooy, 1993):

- a. The identification of agents and institutions involved in urban development processes, their different goals, ideologies and relative power;
- b. The nature of the interaction between these diverse agents and institutions and the constraints they impose on each other;
- c. The effect of this interaction on the development process.

Whereas institutional approach emphasises on the relation between agencies, behavioural approach considers the individual or the agency as the main motive force in economic affairs. The emphasis is centred on a wider range of variables, including motives, values, preferences, perceptions and opinions (Healey and Ilbery, 1996).

Behavioural studies of land development particularly explore the motives and behaviour of the agents involved in land development in relation to the supply and demand. Some scholars looked at the developer's decision process in land development. (Weiss et al., 1966; Kaiser, 1968; Goldberg, 1974; Kaiser and Weiss, 1969; 1970; Drewett, 1973). Other looked at the developer's behaviour in relation to development control (Hok, 1987).

In general there are two principal themes in behavioural approach as discussed

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extensively by Monk, et al. (1991) and Healey and Ilbery (1996). The first theme, and this is the basic idea of this approach, is emphasised on the market imperfections. The growth of large organisations in real world encourages the monopolistic or oligopolistic ways of trading and information gathering. Together with the fact that there is no perfect competition in the real world, it has made the Neo-classical approach, which assumes the perfect market, the equal information for all parties and the decision-maker to be economically rational with the ultimate goal of maximising profit, less tenable.

Thus, behaviourists do not consider profit maximisation as the only motive of the agents operating in the market. Developers operating in the land market are not only driven by the profit, but beyond this, e.g. sales and control over their external environment. Monk, et al. (1991) went to argue that they may seek to satisfy rather than maximises. In the real situation, where information is restricted, experimentation, monitoring and learning become important, and thus, behaviourists argued that process is more appropriate to explain the land development rather than market. More over, the large and usually complex organisation of the developers makes them works as price makers instead of being price takers. The second major theme is focused on the stages of development process. This usually observes the process of conversion of land from agricultural use to urban use. Kaiser and Weiss (1970), for instance, argued that there are 5 stages in the land conversion process. Land, according to them, could be considered as (1) acquiring interest for urban use; (2) being actively considered by an entrepreneur for purchase and development; (3) being programmed for actual development; (4) being developed; and finally (5) being purchased and inhabited by a household. This conversion process involves decision processes by developers, they are development to consider land; decision to purchase land; decision to develop land and selection of residence.

In the British literature the stages of development is the main finding of Drewett's (1973) study in Berkshire, in which he identified seven main stages in the development process. Archer (1977), based in his observation in Australia saw

the approach of large-scale land development process in ten steps. Elsewhere, Healey (1992) quoting Gilbert and Healey (1985), recorded the events in land development through squatter invasion and real estate land subdivision in Venezuela as the following: land comes forward; finance comes forward; land is subdivided into plots; subdivided plots are allocated to builders or occupiers; services are provided; buildings are constructed; buildings are allocated to occupiers. A summary of the process from scholars can be seen in Table 2.1.

The Institutional and the Behavioural approach are not free from critics. Monk et al.(1991), Healey and Ilbery (1996), Healey (1992), van der Krabben and Lambooy (1993, 1993a) identified drawbacks of Institutional and Behavioural approach as the following:

- 1 The approach has not produced any alternative theory of development, it only shows a practical guide of the likely significant land transaction and development in the investment and the decision making of firms and other agencies.
- 2 The approach fails to avoid context dependence under certain political and economic regimes, and thus generalisation is impossible.
- 3 The approach tends to over emphasise on the decisions of manager within decision-making organisations, thus neglects the importance of exogenous environmental change (e.g. consumer decisions, the work force and shareholders). Emphasis has been placed on how decisions are made, rather than on why firms choose a particular location.
- 4 There has been an overemphasis on the site specific and actor specific influences at work in the development process, and separating the individual business from the broader environment and thus ignores the wider structural and macro-economics forces, and underplaying the importance of history and the uniqueness of place.



**Table 2.1:**  
**The Urban Land Development Processes as Constructed by Scholars**

Steps	Kaiser and Weis (1970)	Drewet (1973)	Goodchild and Munton (1985)	Healey (1991)	Gilbert and Healey (1985)	Archer (1977)	Cadman and Austin-Growe (1978)
1	Acquiring interest for urban use	Non-urban use	The maturing circumstances (i.e. new roads, settlement expansion)	Identification of development opportunities	Land comes for ward		Evaluation
2	Considered to be purchased for development	Non urban use under urban shadow Urban interest Active consideration (1) Planning permission Active consideration (2) Purchase of land					Preparation
3	Purchased for development		Purchase of the land by a person/ developer	Land assembly		Owens or assembles the land when it is still under rural zoning at pre-urban values Negotiates a rezoning and development agreement	
4	Programmed for actual development	Active development	Preparation of the land for development Preparation of the development scheme, including obtaining all the necessary consents Arrangement of finance to carry out the development Construction on the development scheme	Project development Site clearance Acquisition of finance Organisation of construction Organisation of infrastructure	Finance comes forward Land is subdivided into plots Subdivided plots are allocated to builders or occupiers Services are provided building constructed	Carries out land use planning Negotiates any necessary extension of the metropolitan highway and public utilities mainlines to the land Negotiates loan finance for the project Designs and subdivides of the land Provides public facilities	Implementation
5	Purchased and inhabited by a household	Purchase of development	Its occupation by either the developer, a new owner or tenant	Marketing/managing the end product	Buildings are allocated to occupiers	Markets the project Sells the serviced plot Co-ordinates the building development	Disposal

Source: Kaiser and Weis, 1970; Drewet, 1973; Cadman and Austin-Growe, 1978; Healey, 1991; Goodchild and Munton, 1985; Archer, 1977

The discussion on the different approaches in land development study shows that each approach has weaknesses as well as strengths. However, there is no objective way to say that one approach is better than the others, as Jones and Ward (1994:2) put out: “...*the competing ideology themselves do not facilitate an objective comparison of findings...*”. It is wise, therefore, to treat each of them as a way to explain the phenomena of land development whenever needed.

## **Residential Land Development Explained**

### ***Model of Land Development Process***

The important step in the explanation of a land development process is developing a model as an analytical tool which can be used to see the details of agency relationship and at the same time provides a way to generalise the behaviour of the actors. Scholars have tried to construct models to facilitate the study of and to understand the land development process (Kaiser and Weiss, 1969; 1970; Evans, 1987; Drewett, 1973; Bryant et al., 1982; Barrett et al., 1978; Massey and Catalano, 1978; Ambrose, 1986). However their perspectives vary. Healey (1991) based on their approaches to conceptualisation of the models grouped them into four, e.g.:

1. *Equilibrium models*, which assume that the development activity is structured by economic signals about effective demand. This derives directly from the Neo-classical tradition of economics.
2. *Event-sequence models*, which focus on the management stages in the development process.
3. *Agency models*, which focus on actors in the development process and their relationship. These have been developed to describe the development process from a behavioural or institutional point of view.
4. *Structure models*, which focus on the forces, which organise the relationships of the development process and which drive its dynamics. These are grounded in urban political economy and are mostly used by Marxist theorists.

Amongst the above models, arguably, the model to describe the development system in the UK by Ambrose (1986) is the most advanced one. He developed a

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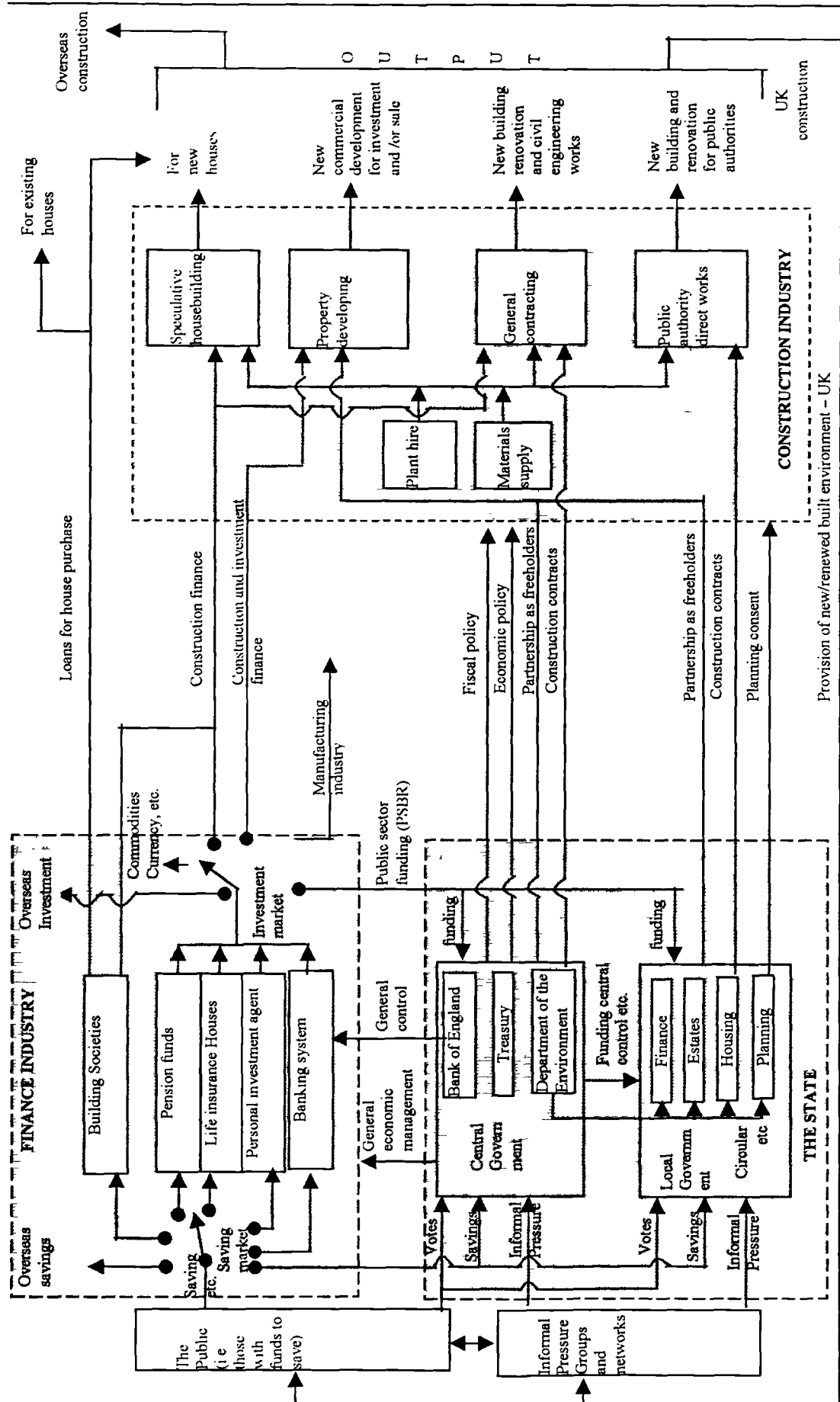
model that outlines the development process in terms of agencies and relationship linking the state, construction industry and the financial sector. Healey (1991) put it as an approach that stands midway between agency models and structure models (see Figure 2.1).

However, such a model should be looked at cautiously if it is to be used to explain the development process in developing countries, particularly because the links among the state, the construction industry and the financial sector in developing countries are not as straightforward as implied by the model. The links will include formal and informal processes which hardly appear in the model. The informal processes may be the result of the immature planning and housing policy instruments (Rakodi, 1996, Baken and Van der Linden, 1992) and they enable part of the development process to take place outside the legal system. (Angel et al., 1983). It is acknowledged, however, that this informal process which produced an informal economic sector kept the developing economies afloat during the 1980s (Jones and Ward, 1994). Moreover, it was believed that this informal system housed millions of urban dwellers (Jones and Ward, 1994; Struyk, Hoffman and Katsura, 1990; Baken and Van der Linden, 1992). However, as noted by Jones and Ward (1994), the informal sector rising from institutional and political constraints on the formal sector, gave place to bribery, corruption, evasion of legal restrictions and the arbitrary use of power.

The relationships among the financial sector, the state and the construction industry and relationships within the construction industry itself could be established through informal processes, particularly when dealing with the regulation of land development. A formal action which is supposed to be conducted according to certain laws and regulations could become informal because of political interest, bribery and corruption. (Server, 1996). Lee (1994), for instance, argued that in developing countries people have three choices when dealing with the laws and regulations: to obey the law, and to incur the financial cost that implies; to pay bribes so that laws are suspended or ignored; or simply to break the law and, as a consequence often to be obliged to live outside it, permanently.



**Figure 2.1**  
**The Development System in the UK (Ambrose, 1986, pp 68-9)**



Thus, when a permit, which is formal, is acquired through bribery or political influence, which is informal, then the whole activities of getting the permit and the 'formality' of the permit becomes obscure. Moreover the market where this activities take place is hardly classified as legal or illegal as noted by McAusland (1985) that

*"...there are probably many land markets ranging from legitimates markets to semi-legal markets where most but not all legal activities are observed, to completely illegal markets in squatter settlements." (McAusland. 1985:39)*

It is also observed that land development process in developing countries is susceptible to fluctuating economic situations and political chance (Durand-Lasserve, 1990; Rakodi, 1994; Batley, 1993; Baken and Van der Linden, 1992) or easily subverted to serve the interest of politically influential groups (Dunkerley, 1983). In Latin American cities, the land development process is also often used to gain political advantage, especially if a deal is struck with the squatter settlements to grant them titles or infrastructure services in exchange for votes (Gilbert and Ward, 1985). In one city in the Philippines more informal processes were commonly used in land development and often informal linkages to officials or political figures were influential in urban land development (Thirkell, 1994).

### ***Land Speculation***

Some land speculations aim at capturing the large profits accruing from the change of land use which is made possible through the urban growth. Due to the inelasticity supply of land, prices of land increase as demands increase. This increasing price will not always followed by an increasing supply. Instead, it may lead landowners to withhold their lands in expectation of even higher prices, thus making the supply less than it would otherwise be. (Darin-Drabkin, 1977). In developing countries, the supply of urbanised land is restricted not only by the geographical factors such as swamp or mountain but most often by factors related to the planning system<sup>11</sup> or to the lengthy and costly processes of the transfer of land title (Dunkerley, 1983).

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<sup>11</sup> See discussion on the effect of land use regulation in this chapter.

The increase in economic value of land is often associated with the provision of urban infrastructure and other urban services (Dunkerley, 1983; Walters, 1983; Archer, 1993; Devas, 1983), which is visible in the change from farm use to urban use in the rapidly expanding cities in developing countries. In anticipation of the increase in economic value of land, the price of farmland close to new urban development will start to rise several years before the actual change in use and this adds to the attractiveness of land as vehicle for investment. Thus, it was reported that in various third world cities, this disproportional relationship between demand and supply, with the demand being much higher than the supply has encouraged large scale as well as small scale developers to sub-divide and sell public and community lands (Nientied and Van der Linden, 1990). Thus, scholars have argued that in many Third-World cities there are no investment opportunities which are as profitable as land. (Baken and Van der Linden, 1992; Dunkerley, 1983).

While speculation is also practised in the developed countries (Ball, 1983; Ratcliffe and Stubbs, 1996; Harvey, 1996; Drewett, 1973), the amount of land held by speculators is not as large as that practised in the Third World cities. The magnitude of land speculation in developing countries is immense. For example, it is said that in the late 1980s, the share of vacant land in the total urban area of Brazil had been 33 per cent (Doebele, 1987 as quoted by Baken and Van der Linden, 1992)

Land speculation almost always takes a monopolistic form (Devas, 1983; Dunkerley, 1983) and usually includes the local elite. Baken and Van der Linden, (1992), on his literature review, noted that in India close to 75 per cent of urban land is held by 6 per cent of the urban households and 55 per cent of all vacant land in Bombay is owned by only 91 persons, whereas 70 per cent of Calcutta's land is owned by private real estate developers.

### ***Price Formation***

The links among state, financial industry and the construction industry also

contribute in the land price formation, an issue that has been much debated in the recent years (Monk, 1999; Monk and Whitehead, 1996). The central question is how price for land and housing is determined. Monk (1999), basing her literature reviews on American and British experience, sees two general approaches in explaining the land price determination. On one hand the theory is concerned with the joint determination of the price of land and its uses. This theory is modelled in terms of trade off between price and accessibility to jobs, markets, and services in the city centre, as originally developed by Alonso (1964) and Muth (1969). On the other hand the theory takes into account the time dimension, expectation of the future and uncertainty.

As discussed at the beginning of this chapter<sup>12</sup>, the trade off between price and accessibility to jobs, markets and services in the city centre theory is basically a demand side approach. Models constructed from the theory typically assume a continuous market for land and housing, and a possibility to reach an equilibrium between supply and demand (Monk, 1999). They further assume that land value reflects an exchange worth determined in accordance with rational economic behaviour, which allocates land to its most productive uses (Drewett, 1973).

However, in an individual observation, the value of developed land can be visualised as residual, which is equal to the difference between the capitalised income from the improvements and their replacement cost, minus the operating expenses and depreciation on the cost of building (Drewett, 1973). Thus, Monk (1999) maintains that there are three levels of relevant analysis in the models of price determination. Those are national level, regional and local levels, and local or site specific level. What is important to note is that at local level:

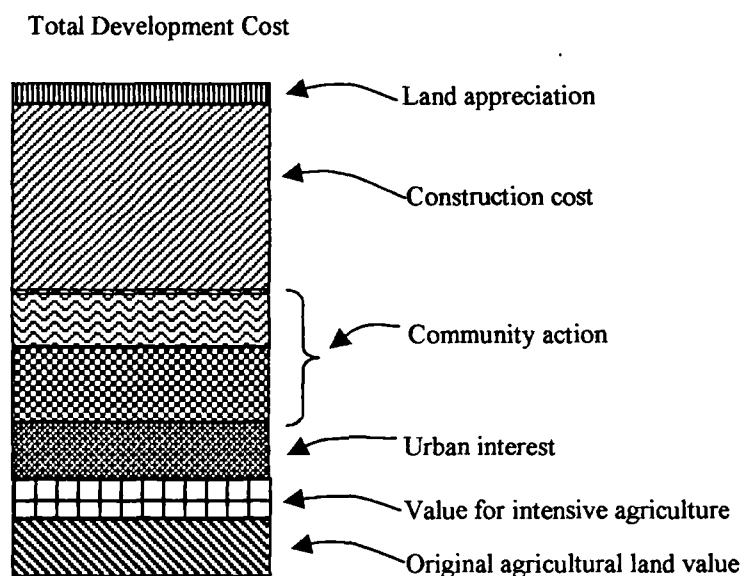
*"The relationship of house price to cost of production provides evidence of differentiated demand and the capacity for supply to adjust quickly. Not all of these differences relate to planning but are also associated with other attributes which cannot be replicated at constant." (Monk, 1999:44)*

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<sup>12</sup> See also Chapter I

Monk's (1999) conclusion above is in line with Drewett's (1973) observation on development process in the UK. Hence, although the land price depends so much on the negotiating position between buyer and seller, the completed site price is a reflection of the opportunity cost for agriculture, speculation increment due to urban use potential, an increment due to community action (granting of planning permission or development of urban services), and the construction cost (see Figure 2.2).

**Figure 2.2**  
**Price Increments in the Land Development Process**



Source: Drewett, 1973 pp 210

### ***Factors Influencing the Locational Decision***

Kaiser and Weiss (1969) identified the factors influencing locational decision by developers as the following: Policy Guides, Implementation Instruments, Contextual Characteristics, Decision Agent Characteristics and Property Characteristics. Meanwhile Monk (1991) in her review argued that there are internal factors and external stimuli, which affected decision of the developer. These factors are identified as *external stimuli*, which affects the developer's decision, *key developer decision* affected by the external stimuli and *developer and site characteristics*. (see Table 2.2)

**Table 2.2:**  
**Factors Influencing Decision of Developers**

Factors	Authors	
	Kaiser and Weiss (1969)	Monk (1991)
<b>Exogenous Environment</b>	<b>Policy Guides</b> <ul style="list-style-type: none"> <li>- Transportation Policies</li> <li>- Water and Sewer Policies</li> <li>- Housing Policies</li> <li>- Annexation Policies</li> <li>- School System Policies</li> <li>- Parks and Recreation Policies</li> <li>- Other Development Policies</li> </ul> <b>Implementation Instruments</b> <ul style="list-style-type: none"> <li>- Capital Improvements</li> <li>- Regulatory Instruments</li> <li>- Service Instruments</li> <li>- Budget Allotments</li> <li>- Information Dissemination</li> </ul> <b>Contextual Characteristics</b> <ul style="list-style-type: none"> <li>- Socio-economic conditions</li> <li>- Public Policies</li> </ul>	<b>External Stimuli</b> <ul style="list-style-type: none"> <li>- allocation of housing/ granting of planning permission</li> </ul> <ul style="list-style-type: none"> <li>- offer of land for sale for development</li> <li>- demand for new houses</li> <li>- taxation and land policies</li> <li>- interest rates and availability of finance</li> </ul>
<b>Endogenous Environment</b>	<b>Decision Agent Characteristics</b> <ul style="list-style-type: none"> <li>- Predevelopment Landowner</li> <li>- Developer</li> <li>- Household</li> </ul>	<b>Key Developer Decisions Affected by Stimuli Above</b> <ul style="list-style-type: none"> <li>- decision to buy land/purchase option in land</li> <li>- decision to develop/apply for planning permission</li> <li>- decision to start/complete the development</li> </ul> <b>Developer and Site Characteristics</b> <ul style="list-style-type: none"> <li>- legal personality</li> <li>- occupancy status</li> <li>- source of income and capital/means of acquisition</li> <li>- family/personal characteristics of 'directors'</li> <li>- motives - of ownership, of development activity</li> <li>- knowledge and attitudes to risk</li> </ul>
<b>Physical Environment</b>	<b>Property Characteristics</b> <ul style="list-style-type: none"> <li>- Predevelopment Characteristics</li> <li>- Physical</li> <li>- Locational</li> <li>- Institutional</li> <li>- Added during development process</li> <li>- On-site improvement</li> <li>- Off-site improvement</li> </ul>	<ul style="list-style-type: none"> <li>- site's current level of fixed investment/ infrastructure</li> <li>- site's physical characteristics (location, size, topography, drainage)</li> <li>- site's planning status</li> </ul>

Source: Kaiser and Weiss (1969), Monk (1991)

In general, the factors can be seen in three interrelated environments: exogenous environment, endogenous environment and physical environment. The change in the exogenous environment will affect the decision in the endogenous factor and will change the sites being considered for development. Land development policy by the Government and economic conditions of the country, for example, are elements of an exogenous environment which will change overtime. In response to the changes in the exogenous factors, the decision of the developer, as an element of the endogenous factor will also change, for example by holding back further development or expansion of the project. This will mean that the physical development in the site also has to be delayed.

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*Effects of Land-use Regulations*

Urban land Policy including planning is one of the exogenous factors which affect the decision of developers. Mattingly (1993) maintained that the purpose of urban land policies are, in general term, to affect the ownership of land, its price and its use, and to utilise land values as a basis for obtaining public fund. However, the unintended effect of this policy is that this policy might cause scarcity in the supply of land for housing, causing delay and pushing the price up (Drewett, 1973; Wiltshaw, 1985; Monk, 1991; Short, et al., 1986; Bramley et al., 1995; Eve, 1992).

Drewett (1973) study in North-west England shows that as the result of planning consent the price of land increased at approximately £ 6,000 per acre or an additional burden of £ 600 per house for a potential purchaser. A study by Gerald Eve (1992) in the UK suggests that planning policy has reduced the total supply of land for housing and, in some cases, restricted the location of development to areas which are seen as less commercially attractive by the market. Dowall (1991) noted that in developing countries when controls have been enforced vigorously, land availability for low-income housing shrinks and housing cost increases. Using Renaud's (1991) study in Seoul, Dowall (1991) illustrated that three Government policies i.e. strong zoning policy which restricts the conversion of agricultural land; a greenbelt policy to block the further outward expansion of the city; and land readjustment methods linked with monopolistic administrative practices to force up land price, have constrained the supply of developable land in Seoul. Elsewhere, Archya (1989) argued that the use of The Urban Land Ceiling Act in India has caused substantial problems particularly in the supply of land for residential development. The Act is also believed to create a vast black market for real estate.

Monk (1991) argued that planning in the UK does impose a constraint, and that the constraint bites harder during a boom condition when the planning system comes under pressure to release more land. During the recession, the constraint will ease. The problems during the boom are that in most cases the prediction of

the best locations for land developments do not match with the preference of the developer.

Although it is believed that planning will affect the supply of land, hence affect the developer, the literature also suggests that planning is not considered as a major constraint for development. This is because most developers have, in one way or another, the ability to change the plans. It is suggested that developers can influence the planning system at different levels (Short, et al., 1986). Short's study also suggests that developers can maintain regular contact to the planning office. A research by Adam & May (1990) as presented by Bramley, Bartlett and Lambert (1995) suggests that

*"... 'active' landowner making representation in local plans could achieve a degree of success, with a quarter of all representation by landowners resulting in subsequent change in the Plan."*

Many developers have attempted to develop a friendly relation with planning departments, and according to Monk (1991), some have been quite successful. Developers and landowners engage themselves in sophisticated lobbying activities to influence development policy in general terms and to have their interests included in development plans.

### ***Typology of Firms***

The typology of firm seems to be considered as one of the indicators to see the behaviour of the developer (Monk 1991). Most of the literature emphasises the significance of size of the firm on the decision making, however, they are no agreement on how to measure the size. Some scholars used the production output measured in term of house units developed within a year (notably: Drewett, 1973; Craven, 1969; Kaiser, 1968). Other used more complex measurement, usually a combination of staff strength, period in business, size of firm, target price range and target area (Foo, 1992b; Ball, 1983). Hok (1986) unlike others, classified the developers using a "normative" classification based on the perception of local planners.



The size and the structure of a firm seem to be important in house building industry because these, to some degree, reflect the monopoly power of the firm (Monk, 1991). Ball (1983) maintained that there is a relation between the size of firm and the ability to minimise market fluctuation risks. Large size house builders can diversify the market by developing more types in more sites. The largest producer can also rely on more rapid turnover of capital than the smaller one. Ball (1983: 64) went on to argue that in large house builders:

*"... margins per dwelling unit can be trimmed in the knowledge that the comparative annual return on capital may be greater because of its quicker turnover..."*

For large-scale land development the price increments could be enjoyed by the firm that holds the land. This could give an economic advantage of scale which can not be enjoyed by smaller developers. Thus, as noted by Archer (1977), the unified ownership of a large area of land means that the landowner:

*"... (i) operates in a situation of minimal external cost revenue because its cash cost and revenues will generally represent the full social cost and benefits of urban development; (ii) can recover the full range of urban land values, including the high land values yielded by the business-use plots, and can recover the higher land values generated by good standard development and the provision of public amenities; (iii) can be reasonably obliged to finance the construction of the infrastructure works necessary to provide fully serviced plot; (iv) will carry out the main land development works itself and can negotiate the timely provision of public facilities by relevant authorities; and (v) can attach building development conditions to each building plot (by development covenant on title) as a means of controlling and co-ordinating the timing (character) of building development of the estate, and to prevent speculative dealing in plots before building development." (Archer, 1977: 8)*

Hok (1987) studying developers' behaviour in dealing with development control in Scarborough Ontario concluded that the size differences among of firms have significantly been reflected in their development performance. Large firm tends to have a good performance in the implementation and building development phases. More over, large firms rely more on financial and organisational expertise they have, while small firms rely more on local connection and knowledge.

The review of the literature above suggests that it is important to take into

account the different classifications of firm in the relation to the behaviour of the developers. However classifying the different developers always causes problems of generalisation. To overcome this problem, Haila (1991) in an attempt to explain the special characteristics of land i.e. land as commodity or land as capital, constructed a typology of four types of investment in land which, arguably, fitted to be used as a basis for classification. The typology is based on two principal dimensions i.e. the purpose of investment (use or exchange<sup>13</sup>); and the time horizon of investment (present or future). She argued that:

*“A piece of land can be acquired and a building can be constructed for occupation (use) or for monetary return (exchange) the property yields when rented (annual rent) or when sold (capital gain, defined as the purchase price and the resale price). An investor acquiring real property and developing it can be oriented towards satisfying a present need or receiving a short-term revenue (present) or he can expect to receive benefit or revenue in the long term (future)...”* (Haila, 1991: 348)

To characterise the different spatial pattern that are produced Haila labelled the four types of investment in land as ‘bazaar’; ‘jungle’; ‘organism’ and ‘circus’ (see table 2.3).

**Table 2.3:**  
**Four Types of Investment in Land and Property**

Aim of Investment		Time Horizon of Investment	
		Present	Future
Use	Agent Source Purpose Function	<b>Bazaar</b>	<b>Organism</b>
		Serendipitous actor Own money Use value Consumption	Planner Public revenues Restructuring Public co-ordination
Exchange	Agent Source Purpose Function	<b>Jungle</b>	<b>Circus</b>
		Dealer Productive sector Annual rent Investment switch	Speculator Borrowed money Capital gain Intrinsic dynamic

Source: After Haila 1991

The important parts in her typology are the agents: e.g. the person or institution who make the investment<sup>14</sup>; the source of investment: e.g. their own capital or

<sup>13</sup> See discussion on the use value and exchange value in this Chapter.

<sup>14</sup> By investment here, she meant “the sacrifice of something now for the prospect of later benefit.” This can be money, work or capital invested in land and property. She also included the improvements of the land, speculation and property acquired for occupation (Haila, 1991: 345).

borrowed money from other financial sources; the purpose of investment: e.g. to make use of the land or to gain profit from the exchange value of the land; and the function of the investment: e.g. consumption or switch from other investment or intrinsic dynamic.<sup>15</sup>

Haila (1991), furthermore, described each of the types as the following:

*Bazaar.* This is the simplest type of investment in land. The agent is a serendipitous actor, the source of investment is his or her own money. The purpose of the investment is for the subjective use value of the site, not according to exchange (market) value. The function of investment is the consumption of these use values. The produced land use pattern is like a bazaar, rich and heterogeneous space with many nuances and differences.

*Jungle.* The agent is a dealer. The source of investment is a surplus produced in the productive sector and the main purpose of investment is annual rent. The function of investment is to switch over accumulated capital to better use. Investment in the real estate sector is the second best alternative, when there are no profitable investment opportunities in production. The produced land use pattern is like a jungle. With a turn in the cycle of production, investment is shifted away from real estate sector and real estate sector become devalued. Because the investment is not determined by the need of space, there will always be a possibility of over development.

*Organism.* This is basically the activity of public sector. The agent is a planner at different levels of public authorities who channels investment into public works (streets, parks) and construction projects (public housing, buildings). The source of investment is public revenue. The purpose of investment is to create conditions for the production of labour power, economic restructuring and capital

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<sup>15</sup> Switched investment theory argues that investment in land and property is made because, temporarily, there are no investment opportunities in the industrial sector, whereas intrinsic dynamic theory argues that investing in the real estate sector is made not because there are no investment opportunities in other sector, but because the real estate sector possesses some internal characteristics that attract investment (Haila, 1991: 346,347).

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accumulation. The produced land use pattern is called an organism.

*Circus.* The agent is a speculator who seek gained profit by using the market for their self interest. The source of investment is money borrowed from different sources such as financial institutions and capital of firms. The purpose of investment is capital gain. The function of investment is to establish the intrinsic dynamic of the real estate sector.

### **Conclusion**

Attempts to explain land and property development process have been carried out in several ways. (The approaches reviewed are summarised in the Table 2.4.) However three main streams can be identified as the basic approaches in the existing researches. On the one hand, there is Neo-classical approach, which is mainly based on supply and demand in perfect market mechanism and basically denies the social relations involvement in land. On the other hand, there is a variety of Institutional and Behavioural and Marxist approaches, which assert that there are special characteristics, including the social relations, connected to land and property.

Marxist approach is concerned with the structural dynamics of the mode of production, whereas Institutional and Behavioural approach stresses the dynamic relationship among the actors involved in land development process. While Behavioural studies of land development particularly explore the motives and behaviour of the agents involved in land development in relation to the supply and demand, Institutional approach emphasises on the relation among agencies.

The literature review suggests that the locational decision made by residential land developers is influenced by many factors ranging from the size and structure of the firms, to the planning system. Planning system, although is not considered as the major constraint for land development, has been believed to constrain the supply of land

**Table 2.4:  
Approaches into Urban Land Development**

Theoretical Assumption	Basic Approach	Research Focus	Authors (among other)	Critics	Empirical/Country Experience	
					Focus	Authors (among other)
Neo-classical Approach	Development activity is structured by economic signal.  Focused on price mechanism which operates in pure supply and demand and assume the equilibrium	<ul style="list-style-type: none"> <li>-Location</li> <li>-Land price vs. Distance</li> <li>-Land price vs. Accessibility</li> <li>-Utility maximising Behaviour</li> <li>-Trade-off model</li> <li>-Supply of land</li> </ul>	Ricardo, Hurd, (1924) Von Thunen (1826)  Alonso (1964) Muth (1969) Mills (1969)  Richardson (1978) Evans (1985) Harvey, J (1996) Neutze (1987) Wiltshaw (1985)	Ball (1983) Harvey, (1973, 1989, 1985) Healey (1990, 1991, 1992) Krabben and Lambooy (1993) Monk et al. (1991)	Hedonic Price model	Mason & Quigley (1996) Megbolugbe (1986)
					Land Price Gradient	Indonesia-Henderson (1996), Dowall and Leaf (1991)
Marxist/Neo Marxist Approach	Struggles among groups for control of the surplus generated in production	<ul style="list-style-type: none"> <li>-Exchange value vs. Use value of land</li> <li>-The conception of land rent</li> </ul>	Harvey (1985, 1989, 1973) Castell Ball (1977, 1986, 1992) Luithlen (1992) Houghton (1993)	Healey (1992) Evans (1992) Monk, et al. (1991)	Capital and land	England: Massey and Catalano (1978)
Institutional and Behavioural Approach	Development processes, problems of Locational inertia, Interaction among actors	Relation among institutions  Relation among actors	Healey (1992, 1990) Drewett (1973) Carven (1968) Carven and Pahl (1969) Krabben (1993) Kaiser and Weiss (1969) Kaiser (1968, 1970) Hok (1987)	Hooper A (1992) Monk et al. (1991) Healey and libery (1996)	Behaviour in dealing with Development control	Canada-Hok LL(1987)  Canada-Goldberg (1974)
					Locational Behaviour	America-Kaiser and Weiss (1970) Kaiser (1970)
					Behaviour in supplying land for development	Bangkok-Foo (1992) Dowall (1992)

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However the literature suggests that developers always have a way to cope with this constraint. Size and structure of the firms are usually used as indicators of the monopoly power of the firms and thus can be used to explain the behaviour of developers but there is no agreement in the measurement of the size. The typology of the investor in land as developed by Haila (1991), provides a basis for classification of developer.

## **Chapter III**

### **Research Methodology: Concepts and Field Methods**

#### **Introduction**

The advent of rapid economic growth in Indonesia during the 1980s and the early 1990s has risen the role of formal private land developers. Their ability to develop large area of land which is situated in a considerable distance from built-up area of Jakarta has created new phenomena in land development. It is precisely to explore the behaviour of those developers that this research was conducted. Why and how can the developers bring about such development are the main questions for this research, which answers require in-depth study of the particular situations and specific cases. This chapter examines the strategies applied for this research, critically discusses the methods chosen and the instruments employed, as well as describes the problems faced during the actual field experience.

This chapter begins with the discussion of research strategies, it then explains the field research and problems encountered. A summary is made at the end of this chapter.

#### **Research Strategy**

Several ideological approaches have been used to explain the land use phenomena. This is because the simple phrase 'urban land use' is vast and includes contributions from many disciplines (Carter, 1981). The different ideological approaches have also been provoking debates to satisfy the need for a rational explanation<sup>1</sup> (Harvey, 1973, 1989, 1985; Haila, 1990; Luithlen, 1992; van der Krabben and Boekema, 1994; Evans, 1992; Ball, 1977, 1992). Did Neo-classical approach answer the phenomenon satisfactorily? Or did Marxist offer a sufficient methodology to address the land use phenomenon in developing countries? These questions have never been satisfactorily answered because each

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<sup>1</sup> See discussion in Chapter II.

ideological approach has their own view and emphasis.<sup>2</sup> The unintended effect of over emphasis on the ideological debates is that it would often vitiate the policy prescription.<sup>3</sup> Therefore, for these reasons, this study does not attempt to get involved on the debates. However, as a strategy, the methodology of this study is largely based on the behavioural approach although in some analysis, whenever needed, other approaches are utilised.

As the focus of this study is to assess the behaviour of the developers in *Jabotabek* area, which has never been studied extensively, an exploratory research strategy is utilised. This strategy is appropriate to be used to seek an explanation of the relations of several variables (Sproul, 1995). In doing so, a case study is chosen as a way to explore and describe analytically the behaviour of developers.

There are three conditions that can be used to justify the use of a case study research (Yin, 1984). Those are (a) The type of research question posed: i.e. question on How and Why; (b) The extent of control an investigator has over actual behavioural events: i.e. no control over behavioural events. (c) The degree of focus on contemporary as opposed to historical events: i.e. focuses on contemporary events. More specifically Yin (1984: 23) argued that a case study is an empirical inquiry to investigate a contemporary phenomenon within its real-life context; is pursued when the boundaries between phenomena and context are not clearly evident; and uses multiple sources of evidence. In line with these reasoning, Bouma and Atkinson (1995:110) maintained that case study is aimed at description to answer the questions of what is going on, and whether there is a relationship between X and Y.

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<sup>2</sup> Mattingly (1993) for example, noted that in the context of land market *"different theories attempting to explain land markets do not so much conflict each others as they have different focuses and therefore have different comments to make about market activities"*

<sup>3</sup> Some scholars (notably Jones and Ward, 1994) argued that the conundrums on the ideological approaches threatened to undermine the merits of *'much arduous empirical work that had already been conducted'*.



As a research endeavour, the case study has been much criticised as suffering from lack of rigor, due to the sloppy and biased enquiry when practitioners implement this methodology, which in turn greatly influences the direction of their findings and the nature of their conclusions. Case study is also criticised for its failure to provide enough base for scientific generalisation (Yin, 1984; Bryman 1988). However, as argued by Yin (1984:21);

*"The case studies, like experiments, are generalised to propositions and not to population or universe. In this sense, the case study, like experiment, does not represent a 'sample'. And the investigator's goal is to expand and generalise theories (analytical generalisation) and not to enumerate frequencies."*

Parallel to Yin, Bryman (1988) argued that the misconception on the problem of the generalisation of case study

*"... arises from a tendency to approach a case study as if it were sample drawn from a wider universe of such case."*

This present study also largely utilises qualitative method of analysis.<sup>4</sup> In order to understand and describe the behaviour of the developers, the researcher needs to engage his/her subjects rather than to adopt a stance of uncommitted neutrality (Walker, 1985). Qualitative research accommodates such need (Dey, 1993; Yin 1985; Bouma and Atkinson, 1995; Bryman, 1988) because the essence of this approach is to view events through the perspective of the people who are being studied (Bouma and Atkinson, 1995). Therefore, qualitative method is more appropriate for the present study than other methods. However, it does not mean that quantitative data are totally excluded (Bouma and Atkinson 1995). As Dey (1993) argued, qualitative and quantitative methods complement each other and

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<sup>4</sup> The idea of qualitative data analysis has been much debated by social scientists, particularly by those of the positivist tradition and humanistic tradition (Walker, 1985, Bryman, 1988). On one hand the positivist believes that study of society and human behaviour should be scientific in the mode of natural science and that social and natural worlds 'conform to certain fixed and unalterable laws and an endless chain of causation' (Huges, 1976 as quoted by Walker 1985:9). On the other hand the humanist tradition views that 'social science is intrinsically different from that of the natural sciences and that it is therefore inappropriate to ape its methods' (Walker, 1995:12). See also Bryman 1988.

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there is no reason to exclude enumeration and statistical analysis from qualitative tool kit.

Exploratory case study and qualitative research strategy require data, which are slightly different from other types of research. Yin (1984:19) noted that in a case study research, two sources of data which are not commonly included in the other types of research are employed; the direct observation and systematic interviewing. Data collections can be different in each type of research, however some of the major investigation methods are observation; documentation of historical evidences from census data, historical research or previous research; survey using questionnaire or personal interview; and experimentation. In particular on land related issues, secondary information is widely known. This includes land registry records (Amitabh, 1994); Government's files; subdivision records; newspapers and magazines (Siembieda, 1994). More specifically Yin (1989) indicated six sources of evidence that can be used in a case study research. They are: documents; archival records; interviews; direct observations; participant observations; and physical artefacts.

Considering the above arguments, this present study utilised multiple sources of evidence including documentation, archival records, interviews and direct observations. Primary data were collected through systematic interviews and questionnaires distributed to a sample of residents in the case study area. Interviews were also conducted to a number of large developers and several experts in property development (not necessarily from the case study area). Primary observations to some selected projects in the case study area were also employed. The study also substantially utilised secondary data obtained from Government's documents and files, national and regional censuses, newspapers and magazines and property-related reports. An extensive data from the Internet were also utilised.

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**Field Research and Problems Encountered*****Operational Definition******Developers***

The term developer used in this study was defined as the formal residential developers, private or public. These developers have to be registered as members of the Indonesian Association of Real Estate (REI). In addition, the developers surveyed were limited according to the following characteristics:

- a. They started developing residential area after 1980
- b. They have projects which are still in progress

***Large Developers***

The size and the structure of a firm seem to be important in house building industry because they, to some degree, reflect the monopoly power of the firm.<sup>5</sup> Some researchers use the production output measured in term of house unit being developed within a year (notably: Drewett, 1973; Craven, 1969; Kaiser, 1968). More complex measurement, usually a combination of staff strength, period in business, size of firm, target price range and target area are also used by some researchers (Foo, 1992; Ball, 1983). Hok (1986) classified the size of developers using “normative “ classification based on the perception of local planners. Elsewhere, Archer (1977), established large-scale land development in Australia as development on land of 400 hectares or more. It is not clear, however, the reason why the size has to be 400 hectares.

Although most literature on land related research emphasise the significance of firm size on the decision making, they present different methods on how to measure the size. Ideally, the measurement to define the size of developer would take into account the complex variables as described above. However, given the condition of data in the study area as well as time and budget constraints for this present research, a complex measurement to define the developers’ size was

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<sup>5</sup> See discussion in Chapter II.

impossible to be constructed. The acceptable way to define large developers was to measure the size of the area they develop, as it can be assumed that the bigger the area they develop, the bigger the investment they have to make. Moreover, the bigger the size of the development, the more complex the management for development. But how big is the size of land developed by large developers?

The sizes of residential developments in *Jabotabek* range from less than 1 hectare up to 33,000 hectares. Defining what a large developer is from such a vast range was therefore not an easy task. BPN (1996) classified Location Permit based on the size of the area i.e. less than 15 hectares; 16 to 50 hectares; 51 to 100 hectares; 102 to 200 hectares; 201 to 500 hectares; and more than 500 hectares. However there is no explanation on why the ranges in each class are not the same, nor which are considered as large developers. REI data (1996) classified the size of project into three classes: less than 15 hectares; 15 to 200 hectares and more than 200 hectares. This classification seems to follow the Ministry of Home Affairs (MOHA) regulations, which regulate the granting of Location Permit.<sup>6</sup> The regulations classify the size of Location Permit into three: less than 15 hectares; 15 to 200 hectares and more than 200 hectares. This classification is made for approval procedure i.e. the approval for Location Permit of less than 15 hectares shall be made by *Walikota* or *Bupati*; the approval for Location Permit up to 200 hectares shall be made by Governor; and the approval for Location Permit of more than 200 hectares shall be made by Ministry of Home Affairs.

REI and the MOHA regulations seem to classify the developers according to the size of the Location Permit they obtain. They are small developers if the size of the land developed is less than 15 hectares; medium if the size is between 15 and 200 hectares; large if the size is more than 200 hectares. The range between 15 and 200 hectares, however, is too vast. If it is assumed that 50 house units can be

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<sup>6</sup> Ministry of Home Affairs Decree no. 3 of 1987; Decree of Ministry of Agraria, Chairman of National Land Agency No 2 of 1993.

built in a hectare of land,<sup>7</sup> it means that there will be 750 house units in 15 hectares land and 10,000 house units in 200 hectares land. The public facilities needed in these two areas are very different. For example, there is no need to build primary school in a 15 hectares residential area, but primary school and secondary school are definitely needed in a 200 hectares residential area.

For the purpose of this present study, the term large developer is used to define developers who develop land on a size of 50 hectares or more. This definition is largely based on the number of public facilities to be built. With the assumption that 50 houses could be built in a hectare land, there would be 2,500 house units in 50 hectares land. If it is further assumed that the size of household was 4.3,<sup>8</sup> then a 50 hectares land could accommodate 10,750 persons. This means that a primary school and other essential public facilities (i.e. Post office, Shops and Polyclinic) would have to be built in this area.<sup>9</sup> This size is also comparable with the definition of a new settlement in Britain.<sup>10</sup>

### **Research Process**

In general, the research was carried out in the following sequence:

- 1      Review of Literature
- 2      Conceptualisation of Research

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<sup>7</sup> In a low density housing project such as Bumi Serpong Damai/ BSD (see Chapter IV), the gross density would be 27 units per hectare (Kota Mandiri Bumi Serpong Damai, 1995), while in a high density *Kampung* area the density would fall between 150 to 190 units per hectare. If we assume that in a residential development only 50 percent of land was designated for housing (52.7 percent in the case of BSD) and that the medium house would need 100 square meters plot, a hectare land would be enough for 50 house units.

<sup>8</sup> Struyk, Hoffman and Katsura (1990), reported that household size in Jakarta dropped from 5.6 to 4.2 person per household. Bandung Urban Development Project (1986) estimated the household size in Bandung to be 4.2 person.

<sup>9</sup> Provision of public facilities varies, it depends on several social factors i.e. age, size, economy, density, political attitudes, social attitudes and institutional arrangement, and physical factors i.e.: climate, topography, drainage and soil (Claire, ed., 1973: 177). In general however, a new settlement of 5000 – 50 000 population needs a supermarket, drugstore, barber, beauty shop (Claire, ed. 1973: 158). See also the settlement standard from Ministry of Public Works (1986).

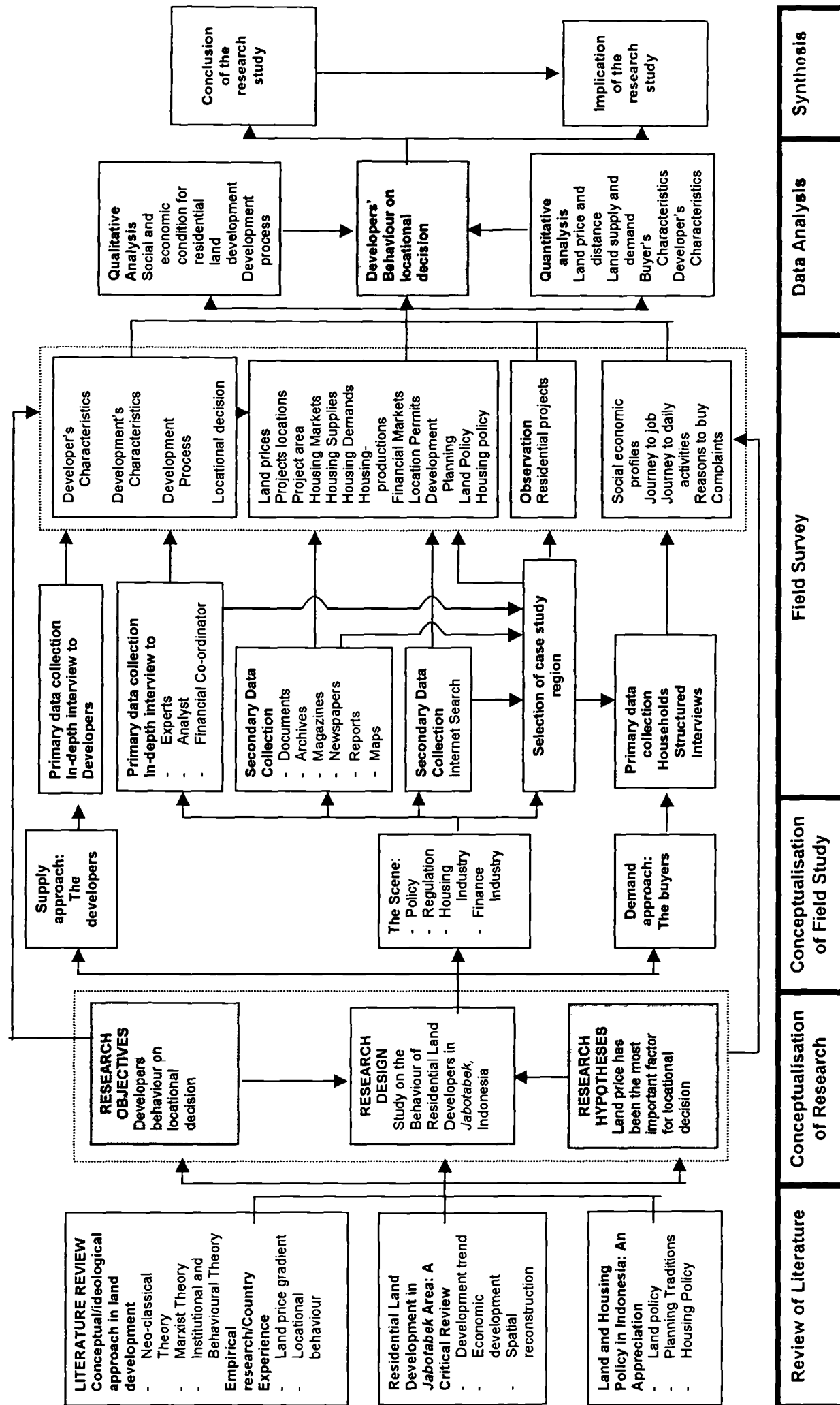
<sup>10</sup> Ratcliffe and Stubbs (1996:486) defined a new settlement in Britain as 'a private sector sponsored new town of between 2,000 and 10,000 dwellings'.

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3	Field Survey
4	Data Analysis
5	Synthesising

The primary literature review, as the first step, was conducted at UCL library through a systematic search using the library networks service, BIDS, NISS and the like, to scan and find published books, documents, and periodicals. In addition LSE library, SOAS library and Senate library of the University of London were also used extensively. After the conceptualisation of the research in the second step, a field study concept was prepared as the third step. There were three approaches prepared for the field survey. The first was the supply approach, which was aimed at finding data concerning the locational decision from the developers. The second was the demand approach. This approach was aimed at gathering information on the socio-economic status of the buyers and their reasons for buying houses in the study area. The third approach was aimed at collecting information on the institutional frameworks and socio-economic conditions where the land development industry takes place. The fourth step, field survey, was conducted from 22 September 1996 to 25 December 1996 in Indonesia. This included in-depth interviews, households interviews and direct observations. The in-depth interviews to developers, experts, analysts, and financial co-ordinators were administered by the author personally, so was the direct observations. However, the household interviews were conducted with the help of a group of undergraduate Architecture Engineering students of the *Institut Teknologi Indonesia* (ITI) in *Kabupaten* Tangerang. Analysis and synthesis, as the fifth and the sixth steps, were conducted in London using qualitative and quantitative approaches. SPSS was utilised for simple statistical analysis to support the qualitative analysis. The quantitative analysis relied primarily on descriptive statistics to summarise and describe the distribution of single variables. Descriptive statistics was also utilised to understand the relationship between two variables (Healey, 1996; Bryman and Cramer, 1997). The overall process is presented in Figure 3.1.

**Figure 3.1:**  
**Research Methodology**



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*The Secondary Data Sources*

As in any other developing countries, secondary data, especially of quantitative character are rarely reliable. Conflicting quantitative data from different resources always occur. Therefore, it is not surprising that data on the number of developers were not readily available and if they did exist the conflicting information was apparent.

The first important data sought for this study was the number of developers in the study area and the size of the projects they started to develop. Data obtained from REI (Real Estate Indonesia) published in 1995, were rejected by the head of Regional Planning Board (BAPPEDA) of *Kabupaten* Tangerang on the ground that the actual number of projects were more than what was recorded in the REI data. Unfortunately BAPPEDA itself did not have any reliable data. Data from REI apparently only listed the parent companies, while some of the actual projects in *Kabupaten* Tangerang were being carried out by subsidiaries companies using different names.

After several attempts to find reliable secondary data, it was decided that data on the issuance of Location Permit<sup>11</sup> from the National Land Agency (BPN) *Kabupaten* Tangerang published in 1996 was to be used as the basic data for this study. Data for the number of developers and the size of the area developed were constructed from other available secondary data, primarily from property magazines and reports from property consultants. Some interesting statistics were also collected from newspapers, economic magazines, conference papers and Internet made available during the time of fieldwork. Secondary data were also largely utilised to gather information on land prices. Although the Government also published some data on land prices to determine the basis for land and building tax, these data were however not reliable. The prices set in the publication were almost always below the market prices. Therefore, in order to

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<sup>11</sup> See Chapter IV.



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gather sufficient reliable information, data on land prices were collected from advertisements available in property magazines, newspapers and from property consultants. Internet sources were also extensively utilised to gather information on the profiles of the real estate companies, financial market, housing prices. Some consultants' reports on land development available in the Internet were also utilised.

### *The Survey*

#### *Case Study Area*

Within the time and resources constraints the survey was focused on *Kabupaten* Tangerang as the case study area. *Kabupaten* Tangerang was chosen as the case study area for a number of reasons:

1. Most (10 out of 22) of the large-scale residential developments in *Jabotabek* are located in this *Kabupaten* (see Table 3.1).
2. Almost all developers who develop large-scale residential development in *Kabupaten* Tangerang also develop large-scale residential development in other *Kabupaten* in *Jabotabek* Area.
3. In term of population, *Kabupaten* Tangerang is the second largest populated area in *Botabek* after Bogor. Between 1980 and 1990, the urban population grew very rapidly at an average of 20.89 per cent annually (Central Bureau of Statistic, quoted by Firman, 1997).
4. Households engaged primarily in agricultural activities had decreased from 113,304 households in 1983 to become 106,577 in 1993, a decrease of 6,727 households within 10 years (BPS, 1994).
5. The built-up area increased substantially, from only 11 per cent in 1980 to 34.5 per cent in 1992, becoming the second largest after Jakarta. See Table 3.2.

**Table 3.1:**  
**Residential Projects Occupying Land of More than 500 Hectares in**  
**Jabotabek , 1996**

No	Project's Name	Location	Area (ha)
1	Rancamaya	Bogor	550
2	Royal Sentul	Bogor	2000
3	Banyu Buana Adhi Lestari	Bogor	500
4	Maharani Citra Pertivi	Bogor	1679
5	Bangun Griya Triperkasa	Bogor	500
6	Kuripan raya	Bogor	500
7	Resor Danau Lido	Bogor	1200
8	Bukit Jonggol Asri	Bogor	30000
9	Bumi Serpong Damai	Tangerang	6000
10	Kota Tiga Raksa	Tangerang	3000
11	Bintaro Jaya	Tangerang	1700
12	Citra Raya	Tangerang	1000
13	Gading Serpong	Tangerang	1000
14	Kota Modern	Tangerang	770
15	Alam Sutera	Tangerang	700
16	Kota Jaya	Tangerang	1745
17	Pantai Kapuk Indah	Tangerang	800
18	Lippo Karawaci	Tangerang	700
19	Lippo Cikarang	Bekasi	3000
20	Kota Legenda	Bekasi	2000
21	Harapan Indah	Bekasi	700
22	Cikarang Baru	Bekasi	5400

Source : Properti Indonesia, March 1996

**Table 3.2:**  
**Development of Built-up Area in Botabek, 1971 – 1994**

Location Permit	Area (hectares)	Percentage of total Administrative area
<b>Bogor *</b>		
1974	33,150	14.7
1980	36,560	13.1
1987	60,659	17.7
1994	64,782	19.0
<b>Tangerang</b>		
1980	14,033	11.0
1989	34,162	27.0
1992	42,214	34.5
<b>Bekasi</b>		
1973	2,678	2.0
1980	14,310	9.6
1988	15,905	10.7
1993	27,378	18.4

Note : \* Including Kabupaten Bogor and Kotamadya Bogor

Source: National Land Agency as quoted By Firman (1997)

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*In-depth Interviews*

The aim of conducting in-depth interviews was to gain the opinions of the developers as the supply side of the housing industry, and experts concerning the locational decision for residential projects and to find out the overall picture of the real estate industry in *Jabotabek*, as well as in Indonesia. It was found out that 42 developers in *Kabupaten* Tangerang (see Table 3.3) fit into the operational definition of this research. It was also known that these developers carried out projects in *Kabupaten* Bekasi and Bogor as well. Unfortunately, there was no reliable data which could be used as a sample frame for all developers in *Jabotabek*. Considering this fact, it was decided to purposively select 28 developers in *Kabupaten* Tangerang, which corresponds to 66 per cent of large developers in the *Kabupaten*. From the 28 selected developers who were asked to be interviewed only 21 responded positively. In addition, 2 developers who carried out residential projects in Jakarta, 2 developers who owned projects in *Kabupaten* Bogor and 2 developers who carried out projects in *Kabupaten* Bekasi were also selected. All together 27 developers were interviewed (see Table 3.4). The selection of developers was based on the assumption that:

1. The total number of large developers in *Jabotabek* did not exceed 50.
2. Because most of the large developers in *Kabupaten* Tangerang also carry out projects in Jakarta, Bogor and Bekasi, these developers, therefore, could also represent other *Kabupatens*.

The above assumptions established that the 27 developers interviewed corresponds to 54 per cent of the total large developers in *Jabotabek*. The interviewees included directors, vice directors or general managers of the companies who carried out residential development projects over 50 hectares. In addition, interviews were also conducted to Ciputra, owner of several new towns and property development projects; Panangian Simanungkalit, a prominent analyst; Pingky Pangestu, owner of several property projects and an analyst; Sudarsono Sukardi, assistant to the Minister of Public Housing; Armand Amiarso, vice co-ordinator of an International Investment Syndicate; Herman Sudarsono, vice director of Real Estate Indonesia, and Agus Rahmat, the chairman of BAPPEDA (Regional Planning Board) of *Kabupaten* Tangerang.

**Table 3.3:**  
**Residential Projects on Land of 50 Hectares and Over**  
**and Companies in Kabupaten Tangerang in 1997**

N	Project	Location	Area	Company	Parent Company
1	Permata Balaraja	Balaraja	50	Restu Alam Permata	Amcol Group
2	Taman Balaraja	Mauk	50	Amcol Land Development	Amcol Group
3	Alam Sutera	Serpong	700	Alfa Goldland Reality	Argo Manunggal
4	Puri Beta	Joglo	75	Beta Gold Land	Argo Manunggal
5	Taman Alfa Indah	Joglo	75	Alfa Goldland Reality	Argo Manunggal
6	Bumi Indah	Pasar Kemis	200	BHS Land	BHS Group
7	Citra Raya	Cikupa	2700	Citraland	Ciputra Development
8	Duta Gardenia	Tangerang	100	Duta Putra Mahkota	Duta
9	Villa Dago	Ciputat	75	Duta Putra Mahkota	Duta
10	Villa Taman Cibodas	Jakarta	100	Duta Putra Mahkota	Duta
11	Vila Pamulang Mas	Ciputat	60	Banguncentra Pamulang	Misori Utama/Indokisar
12	Kebayoran Regensi	Pamulang	400	Panca Muara Jaya	Ersenal Group
13	Vila Tangerang Regensi	Pasar Kemis	150	Panca Muara Jaya	Ersenal Group
14	Gading Serpong	Serpong	1080	Jakarta Baru Cosmopolitan	Summarecon Agung
15	Lippo Karawaci	Karawaci	500	Lippo Karawaci	Lippo Group/Kalbe Group/Ersenal
16	Puri Metropolitan	Gondrong	120	Metropolitan	Metropolitan Group
17	Teluk Naga	Teluk Naga	3200	Mandara Permai	Metropolitan Group/Salim Group
18	Bukit Modern	Pondok Cabe	50	Modernland	Modern Group
19	Kota Modern	Kod. ???	700	Modernland	Modern Group
20	Taman Adyasa	Cisoka	150	Adyasa Konstruksindo	Modern Group
21	Melati Mas	Serpong	300	Misori Utama	Ongko Group
22	Bintaro Jaya	Pondok Aren	2300	Jaya Real Property	Pembangunan Jaya
23	Puri Jaya	Pasar Kemis	1800	Jaya Real Property	Pembangunan Jaya
24	BSD	Serpong	6000	Bumi Serpong Damai	Pondok Indah Group/ Salim Group/ Sinarmas
25	Kota Tiga raksa	Tigaraksa	3000	Tiga Raksa	PWS
26	Taman Banjar Wijaya	Cipondoh	120	Sinar Wijaya Ekapratista	Wijaya Karya
27	Villa Permata	Karawaci	400	Darma Sarana Nusa	Lippo*
28	Bumi Indah	Pasar Kemis	150	Artha Buana Sakti	
29	Dasana Indah	Legok	500	Darma Sarana Nusa	
30	Geria Jakarta	Pamulang	50	Setia Cipta Markindo	Setia Cipta Dinamika Group
31	Kedaton	Pasar Kemis	200	Duta Realtindo	Ciputra Group*
32	Kosambi Baru	Semanan	85	Taman Harapan Indah	Metropolitan group
33	Medang Iestari	Legok	100	Masa Kreasi	
34	Nirwana Serpong Agung	Pamulang	150	Subur Progres	
35	Palem Semi	Karawaci	80	Bina Sarana Mekar	Argo Manunggal
36	Pamulang permai	Pamulang	125	Bumi Upaya Griya	
37	Perumnas	Karawaci	450	Perumnas	Perumnas
38	Taman Rempoa Indah	Rempoa	100	Taman Rempoa Indah	Brasali Group
39	Tataka Puri	Curug	150	Bukit Permata Nirwana	
40	Telaga Bestari	Cikupa	70	Sinar Puspa Persada	
41	Vila Ilhami	Karawaci	100	Mustika Hadiasari	
42	Vila Pamulang	Ciputat	115	Reni Jaya	Reni Jaya

Note : \* Take over

Source : Properti Indonesia, April 1997; November 1996; October 1994; and other sources

**Table 3.4**  
**The Selected Developers for In-depth Interviews**

	Company's Name	Project's Name	Location	Distance to JKT Km	Location Permit Ha	Area Developed Ha	%
1	Kota Legenda	Kota Legenda	Bekasi	25	2000	350	17.50
2	Lippo Cikarang	Lippo Cikarang	Bekasi	30	5500	1200	21.82
		<b>Total in Kabupaten Bekasi</b>			<b>7500</b>	<b>1550</b>	<b>20.67</b>
3	Daksa	Kota Kembang - Depok Raya	Bogor	15	300	100	33.33
4	Kuripan Raya	Telaga Kuripan - Raya	Bogor	20	750	50	6.67
5	Bukit Jonggol Asri	Bukit Jonggol Asri	Bogor	40	33000	0	0.00
		<b>Total in Kabupaten Bogor</b>			<b>34050</b>	<b>150</b>	<b>0.44</b>
6	Taman Kedoya Baru	Taman Kedoya Baru	Jakarta	7	80	80	100.00
7	Pulo Mas Jaya	Pulomas Jaya	Jakarta	5	350	300	85.71
		<b>Total in Jakarta</b>			<b>430</b>	<b>380</b>	<b>88.37</b>
8	Beta Gold Land	Puri Beta	Kod. Tangerang	10	75	46	61.33
9	Wijaya Karya	Banjar Wijaya	Kod. Tangerang	20	120	60	50.00
10	Modernland	Kota Modern	Kod. Tangerang	18	700	200	28.57
11	Duta Putra Mahkota	Villa Dago	Tangerang	22.5	75	40	53.33
12	Bina Sarana Mekar	Palem Semi	Tangerang	21	80	35	43.75
13	Masa Kreasi	Medang lestari	Tangerang	25	100	30	30.00
14	Duta Putra Mahkota	Duta Gardenia	Tangerang	24	100	70	70.00
15	Reni Jaya	Vila Pamulang	Tangerang	23	115	70	60.87
16	Taman Adyasa	Taman Adyasa	Tangerang	50	150	70	46.67
17	Duta Realtindo	Kedaton	Tangerang	33	200	70	35.00
18	Melati Mas	Melati Mas	Tangerang	20	300	200	66.67
19	Perumnas	Perumnas	Tangerang	23	450	450	100.00
20	Lippo Karawaci	Lippo Karawaci	Tangerang	23	500	500	100.00
21	Alam Sutera	Alam Sutera	Tangerang	19	700	195	27.86
22	Gading Serpong	Gading Serpong	Tangerang	20	1080	400	37.04
23	Jaya Real Property	Puri Jaya	Tangerang	30	1800	100	5.56
24	Jaya Real Property	Bintaro Jaya	Tangerang	15	2300	700	30.43
25	Citraland	Citra Raya	Tangerang	33	2700	900	33.33
26	Tiga Raksa	Kota Tiga raksa	Tangerang	39	3000	400	13.33
27	Bumi Serpong Damai	BSD	Tangerang	22	6000	1000	16.67
		<b>Total in Kabupaten Tangerang</b>			<b>20545</b>	<b>3100</b>	<b>15.09</b>

Most of the in-depth interviews were conducted at the interviewees' offices in Jakarta. Some of them were interviewed two or three times in order to be able to make a crosscheck of different information gathered from observations and interviews to other developers and experts. The main problem faced during the in-depth interview was the timing. Letters asking for an interview had to be sent two or three weeks in advance and sometime after two or three other letters some

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of the developers refused to be interviewed in hesitation that the questions asked would cause them problems.

### *Sampling Procedure*

To understand the profiles of the buyers, the demand side of the housing produced by the developers, interviews to the households in the residential projects in the area were also conducted. Within the time and resources constraints, a set of criteria was defined to guide the sampling procedure:

1. **Spatial representativeness.** Since this survey was actually an attempt to see the profile of the buyers over the whole projects in the case study area, the spatial representativeness has to take into account the different sections of the case study area.
2. **Size of the residential project.** In many occasions, the size of the projects shows the social status of the buyers, therefore the survey should also include projects of different sizes.
3. **Manageability.** It is important to have a survey which is manageable considering the number of universe and the time and budget constraints.

Based on the above criteria, it was decided to take 250 households as the samples and to administer a multi-sampling approach. The universe was defined as all dwelling occupiers in residential projects of 50 hectares or more in *Kabupaten Tangerang*. The first step was to construct the sample frame of the residential projects in the study area based on several sources. After scrutinising some sources, a list of 42 residential projects of 50 hectares or more was constructed (see Table 3.3). From the list, 15 projects were selected purposively, taking into account the three criteria stated above (see Table 3.5 and Figure 3.2). As the third step, a quota sample was used to decide the number of household to be interviewed in each selected projects. The fourth step, using systematic sampling, households to be interviewed were chosen. In projects with mixed development such a BSD, a stratification based on the house size was made before systematic sampling. The stratified systematic sampling was made to enable the distribution

of questionnaire in all social strata, which was assumed to be represented by the size of house.<sup>12</sup>

**Table 3.5:**  
**List of Sample**

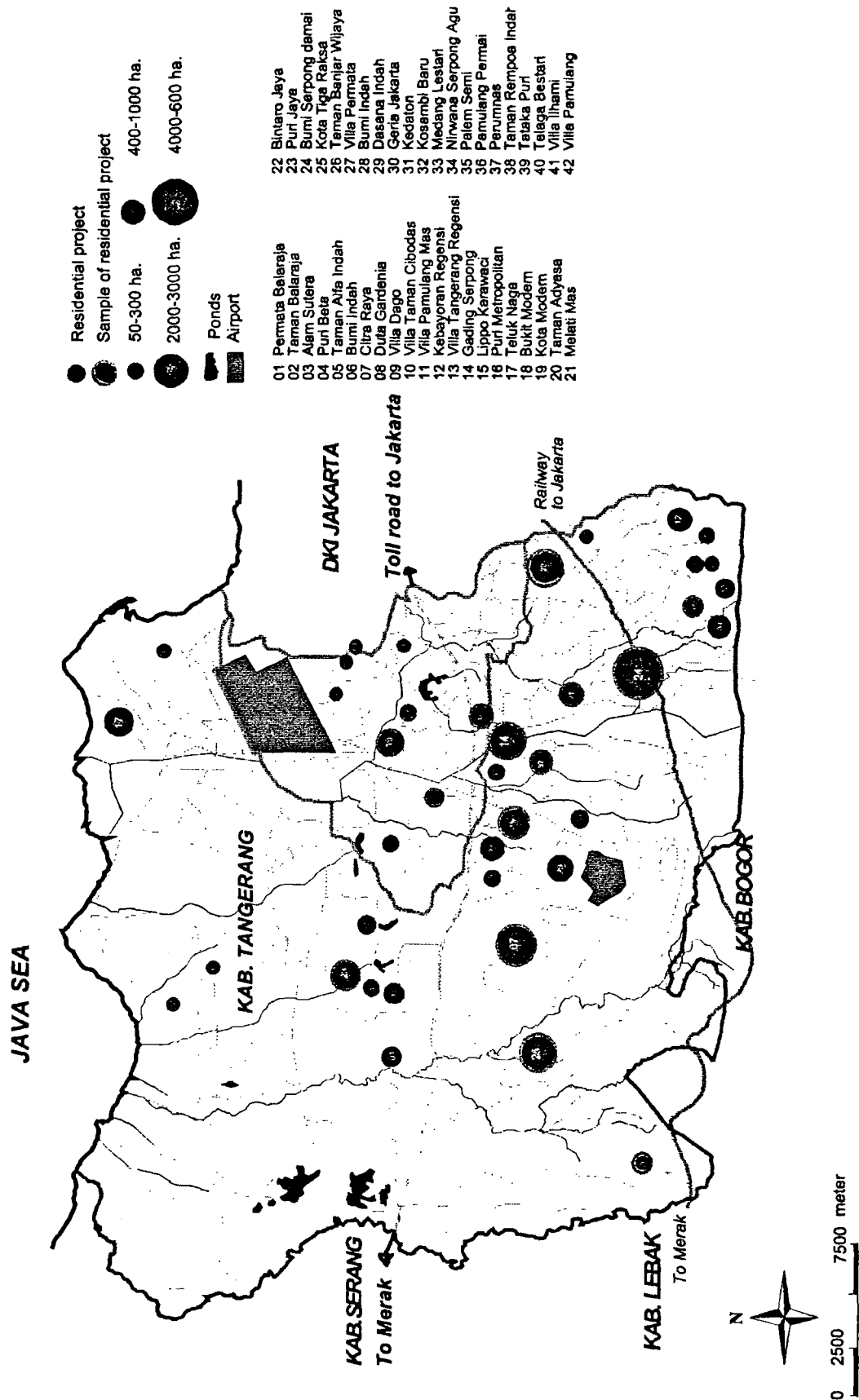
No	Name of The Project	Size of Location Permit (Ha).	Area Developed	Distance to Jakarta (Km).	Households interviewed	%
1	Perumnas	700	450	23	20	8.6
2	Citraland	2700	900	33	15	6.5
3	Modern land	700	200	18	15	6.5
4	Banjar Wijaya	120	60	20	10	4.3
5	Villa Melati Mas	300	200	29	10	4.3
6	BSD	6000	1000	22	30	12.9
7	Gading Serpong	1080	400	20	15	6.5
8	Alam Sutera	700	195	19	10	4.3
9	Medang Lestari	100	30	25	9	3.9
10	Villa Dago	75	40	22.5	20	8.6
11	Bintaro jaya	2300	700	15	15	6.5
12	Lippo Karawaci	500	500	23	18	7.8
13	Tiga Raksa	3000	400	39	20	8.6
14	Palem Semi	80	35	21	10	4.3
15	Taman Adyasa	150	70	50	15	6.5
	<b>Total</b>				<b>232</b>	<b>100</b>

Most of the interviews were conducted in the evening in order to be able to meet the breadwinners of each household. To ensure that the interviews, which were administered by 25 Architecture students from *Institut Teknologi Indonesia* had been appropriately conducted and consistently answered, the author carried out re-interview to several households afterwards. Altogether, 250 households were interviewed using questionnaire. However after checking the answers, eventually only 232 questionnaires were completely filled. Before the main interview, a pilot test was conducted to buyers of a residential project in Bandung to see whether the questions could be correctly interpreted by the interviewees. As a result of the pilot test, some questions had to be changed accordingly.

<sup>12</sup>

It is common within the developers in Indonesia to differentiate the size of house in three types, i.e. Small : between, 36 sq. m and 45 sq. m; Medium: between 54 sq. m and 70 sq. m; and Large: 75 sq. m and above.

**Figure 3.2:**  
Map of Kabupaten Tangerang and the Location of the Sample Residential Projects





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*Questionnaire Design and Observation List*

There were two designs for the questionnaire. Firstly was the questionnaire for the developers or the supply side. Secondly was the questionnaire for the households, the demand side.

*Questionnaire for Developer*

The main objective of this questionnaire was to unearth the information regarding the behaviour of the developer in carrying out land development. For this purpose, the questionnaire was divided into three sections i.e. Developer's Characteristics; Project's Characteristics; and the Developer's Views on Matters Regarding Land Development. The developers interviewed were mostly represented by the managers or the owners who, unfortunately, did not have much time to be spent on an interview. Therefore, close-ended type of questions were used to cut off the interview time. The close-ended questions were mostly used for questions related to hard-facts such as the type of company, developed area and number of employee. However, for the sake of gaining more information on the behaviour, some open-ended type of questions were also utilised. The open-ended questions were used to get the developers' opinions. In addition, a probing technique was also used, especially for delicate questions such as questions on the services they perform to the officials, or on the management of the project's cash flow. The sections are highlighted below.

(a). Developer's Characteristics

This section looked at the hard-facts of the developers. It looked at the history, experience and type of each developer, as well as their number of project, house unit, and employee. The use of consultant and contractor in the projects was also questioned.

(b) Project's Characteristics

This section examined the opinion of each developer regarding the choice of location and factors influencing the choice of location. It also looked at public facilities they built in the projects as well as the reasons to build such facilities. It

also identified and examined their opinions regarding land matters, such as: The total area of the Location Permit they obtained, the land acquisition processes, the buying prices of the land and about the previous owners of the land. This section was critical and needed a probing technique. It was very difficult to dig information on the land prices, on the previous owners of the land and on how they acquired the land.

(c) The last section was a very important part of the questionnaire. It examined the developers' opinions regarding matters related to land development such as Government's regulations and their strategies in carrying out land development.

#### *Questionnaire for Buyers*

The questionnaire for buyers was aimed at gaining information from the demand side: i.e. who they were and the reasons they bought houses in the newly developed area. Close-ended and multiple-choice types of question and answer were mostly used in order to make it easy to administer the questionnaire as well as to make it easy for the interviewees to answer. The questionnaire was divided into three sections; e.g.: House; Daily Activities; and the Households. The questions regarding personal information of the household were placed at the end to avoid rejection by the interviewees before they really understand the purpose of the survey. To gain confidence from the interviewees, they were not asked to write their names nor addresses.

##### (a) House

This section examined the reasons the buyer bought the house. The questions were designed to see whether the buyer's expectations matched the seller's offers and vice versa.

##### (b) Daily Activities

This section looked at the activities of the households. It seek to know the job locations of the buyers as well as how they get to the job place. It also examined

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where and how the family members carry out their daily activities such as shopping or going to school.

(c) The Household

This section gathered the socio-economic characteristics of the households. It looked at the level of education, type of job, household's earnings, social level and the location of household's previous house before moving to the present house.

*Observation List*

In addition to the questionnaire, a list of items to be observed by the interviewer was supplied. The list identifies observable features in the project, such as the available public facilities, to better understand the project's condition.

**Summary**

This chapter has discussed the strategy applied for this research. It has explained the importance of exploratory and case study as a research strategy. This research investigate the behaviour of residential land developers in *Jabotabek* area, Indonesia. The method adopted here is a case study approach with *Kabupaten Tangerang* as the chosen case study area.

Data were collected from a number of sources. In-depth interviews were conducted to 34 persons including 27 directors or vice directors of land development companies, and 7 experts and Government officials. Interviews were also administered to 232 households in 15 residential projects in *Kabupaten Tangerang*. This chapter has also highlighted the structure of the questionnaire.

*Part two*  
**Private Land Development And  
The Private Residential Developer**

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## **Chapter IV**

### **Land and Housing Policy in Indonesia: The Setting for Land Development**

#### **Introduction**

Private developers operate in a system of land and housing that are interrelated. Barlow, (1990), Monk et al., (1991), Bramley et al., (1995), for example, suggested the relation between planning, land supply and house prices in developed countries. While Dowall (1989), Leaf (1993), Farvacque and McAuslan (1991), are among the experts who showed the interrelations between planning, land and housing system in the less developed countries.

While in most developed countries developers operate on a very rigid, yet clear and accountable land and housing policy, developers in less developed countries work on flexible and vague systems full of uncertainties. This is because most of the planning and housing policies instruments in developing countries are still immature or are just inherited from the colonial period, creating a dichotomy of formality and informality. This formal and informal system enables urban plots to be offered and acquired outside the legal system (see for example: Angel et al., 1983), which is frequently resulted in, in Dowall's words,

*"...significant adverse impacts on social welfare and economic productivity..."* (Dowall, 1991: 1).

This chapter describes the policy instruments for land and housing development in Indonesia to serve as a background for further discussion in the following chapters. In doing so, this chapter is divided into three sections. The first section discusses the land policy by highlighting the policy instruments i.e. planning tradition, the urban planning procedures and the development control procedures focusing on the *Location Permit* system and the Guided Land Development. Section two discusses the housing policy, focusing on housing development and housing finance. The last section of this chapter is the conclusion drawn from the earlier discussions.

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**Land policy**

After its independence, the Indonesian Constitution of 1945 stipulates that

*“Land, water and the natural riches contained therein shall be controlled by the state and shall be made use for the people.” (Article 33 of the 1945 Constitution).*

Based on this article, the Basic Agrarian Law of 1960 (BAL) gives the state, on behalf of the people, the right to govern and control all land (*Hak Menguasai*) (Article 2, BAL 1960), including the disposition, utilisation, supply and conservation of land. This gives the positive control power to the state over private land ownership rights. This right, however, is not the same as the state owning all the land as practised in western land law. The state does not own the land but does have the right to control the land for the benefit of the people. BAL, furthermore, stressed that “... *land has a social function...*” (Article 6, BAL 1960). With those legal bases, the Government policies on land are stressed on the use of land for the welfare of the people.

Drabkin (1977) maintained that land policies instruments basically consist of three main elements: First, regulatory measures influencing private land use decision including registration of transaction, and land use regulatory framework such as zoning and development control. Second, direct public interventions through land acquisition by public authorities. Third, the taxation of land and housing policy instruments including the use of regulatory measures to ensure the balanced supply of housing and direct involvement of public authority to provide housing, mainly for the low-income segment of the people.

This part explains the regulatory measures, particularly the ownership rights and the planning system, adopted in Indonesia.

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***The Land Tenure: A Dual System of Land Rights***

Land tenure forms the basic element in the land development process as this determines the relations among the agencies in land development process. Typical of Third World countries which experienced colonisation, the land tenure systems are adopted from the colonial country and superimposed with their own traditional systems of tenure as the case of Zimbabwe (Rakodi, 1996).

Indonesian system of land is not different from other developing countries in the sense that the system was developed from two systems, customary and western. Before its Independence, Indonesia adopted dual systems of land laws, the “Western Rights” and the “*Adat*” Customary Law. The western rights were largely the Dutch system of land law derived from the 18 century French Level Code (Struyk, Hoffman and Katsura, 1990). The BAL was basically aimed to combine the customary/ traditional (*Adat*) land law and the modern land law. Under the BAL, two types of land are defined: Privately owned land and State owned land. On these types of land there are four basic rights to the land namely: Fee Simple Ownership (HM- *Hak Milik*); Right of Building (HGB-*Hak Guna Bangunan*); Right of Cultivation (HGU-*Hak Guna Usaha*) and Right of Use (HP-*Hak Pakai*). In addition to these rights, there are three types of possessory rights that are recognised by the Government. These possessory rights come from the fact that persons who have been in possession of property for substantial period of time need to be given recognition by officials and judges. Table 4.1 shows the salient features of these rights. The principal land rights can be shortly described as follows:

***Hak Milik*** is the fullest form of ownership right. This right is granted without time limitation. *Hak Milik* is not available to foreigners. The possessor of this right may convey a number of inferior rights such as *Hak Guna Bangunan*, *Hak Pakai* and *Hak Sewa* (Right of Lease).

Table 4.1:  
The Salient Features of the Indonesian Land Rights

Right	Duration	State/Private Land	Extent of Right	Right given to Indonesian Corporation	Right given to foreigners	Land Registration required	Use as Security	Right of Conveyance	Right to convey Inferior Rights	Area Limitation	Restriction	Old European Land Rights
<i>Hak Milik</i> Fee Simple Ownership	No limit	Both State and Private Land	All rights of land except mining rights	No, except for religious/social institutions, State Bank	No	Yes	Yes	Yes	Yes	Max. 5-20 Ha. for agricultural land	Land use plan, agricultural land must be cultivated	<i>Eigendom</i>
<i>Hak Guna Usaha</i> Right of Cultivation	25/35 yr. Extension 25 yr.	State Land	Agriculture, fishing, breeding, can construct building	Yes	No (Except Foreign Investment Act 1967)	Yes	Yes	Yes	Yes	Min. 5 Ha	Same as above	<i>Hak Erpact</i>
<i>Hak Guna Bangunan</i> Right of Building Use	30 yr. Extension 25 yr.	Both State and Private Land	Construction & possession of buildings on another's land	Yes	No, (Except Foreign investment act 1967)	Yes	Yes	Yes	Yes	--	Same as above	Unconverted, <i>Hak Eigendom</i> ; <i>Hak Opstal</i>
<i>Hak Pakai</i> Right of Use	Limited agreement of parties. For State Land 10 yr.	Both (in practice only State Land)	Right to use and obtain product of land	Yes	Yes	State Land only	No	If authorised by agreement	--	--	Same as above	--
<i>Hak Sewa</i> Right of Lease	Agreement of Parties	Both State and Private Land	Agreement of Parties	Yes	Yes	No	No	No	--	--	Same as above	--
<i>Hak Gadai</i> Right of Pawn	Agreement of Parties	Private Land	Full use of land by agreement of parties. Land returned when owner pays back loans	--	No	No	--	By inheritance can be subpledged	No	--	--	--
<i>Hak Menumpang</i> Right of Lodging	Agreement of Parties	Private Land	To erect temporary housing on another's land; No rent	No	No	No	No	No	--	--	--	--

Source: Adapted from Sherer (1979)



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**Hak Guna Usaha** is the right that enables the holder to cultivate state land or to use it for other agricultural or fishing purposes for a fixed period not exceeding 35 years. The right may be extended for another 25 years and may be transferred and encumbered with a security interest.

**Hak Guna Bangunan** enables holders to erect and to own building on someone else's land. The right can be granted for a fixed period not exceeding 30 years, and can be renewed for a period of 20 year. It may be transferred and encumbered with a security interest.

**Hak Pakai**, enables the holders to use someone else's land either for agricultural or building purposes; this right may be acquired by foreigners.

As mentioned above, the BAL 1960 recognises land ownership under the customary land law (*Adat*). As the customary land rights are not registered, the proof of ownership has to be supported by documents such as the receipt of the payment of land tax. Although unregistered, land with the proof of tax letter (*Girik*) obtain a *Hak Girik* (Tax Letter Right). This right has full tenure status similar to that of freehold ownership. It is complete, perpetual and freely alienable between individuals (Leaf, 1993). Other ownership under customary law is *Hak Garapan*<sup>1</sup> (Use Right). Unlike Tax Letter Right, ownership under Use Right (*Hak Garapan*) is much more difficult to be proved. The proof is only based on transfer agreements between individuals and theoretically should show the history of the land ownership. The problem arises because of the irregular state record-keeping system. It is very difficult to trace back the ownership of such land. This condition is one of the causes of the inefficient operation of urban land market in the area (Leaf, 1993; Struyk Hoffman and Katsura, 1990).

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<sup>1</sup> *Hak Garapan* is the right given over *Tanah Garapan* from the exploitation rights accorded to Indonesian on the land held under Dutch Civil Law by Europeans and other landlords. Leaf dissertation (1992), and the study of Struyk, Hoffman and Katsura (1990) gave a good account on the discussion of land rights in Indonesia.

It is not the intention here to describe the detailed history of the land law.<sup>2</sup> However, for the sake of clarifying the relation between the customary rights and the western rights it is worth to highlight some of the important events. The promulgation of Land Transfer Ordinance in 1834 introduced the dual land law in Indonesia. This is because the law recognised the customary land right from the native Indonesian. The areas under direct control of the colonial Government were registered as Western Land and filed under Western Law. The large land remaining were Indonesian land under the traditional communal-based system of native land tenure.

However, the introduction of exploitation policy under *Cultuurstelsel*<sup>3</sup> after 1870 changed the land ownership right of the native Indonesians' land. Under this policy, European and other non-Indonesian entrepreneurs were given 20-years leasehold rights which were worked by tenant farmers, many of whom had already been living and working on these land for generations (Leaf, 1993). In the nineteenth century several land laws were introduced and it was the *Wet Agraria* or Agrarian Law of 1870 which permitted native landlords to own their properties under *eigendom particuliere landerijen* for a period of 99 years. This law enables the tenant farmers to own their properties and therefore enables them to sell or inherit their land (Leaf, 1993).

With the Agrarian Law, Indonesian farmers and residents were allowed Exploitation Right (*Hak Tanah Usaha*) and Commercial Use Rights (*Hak Tanah Kongsu*). With the promulgation of BAL, land formerly held under *Hak Tanah Usaha* had been changed into a broad category of traditional ownership right (*Hak Milik Adat*), while *Hak Tanah Kongsu* had fallen into a legal grey area (Hoffman and Marbun, 1990 quoted by Leaf, 1993). Table 4.2 below illustrates

<sup>2</sup> Partly this is because space does not permit one, and partly because Leaf, 1993; Struyk Hoffman and Katsura, 1990, have provided detailed explanation of the land law in Indonesia.

<sup>3</sup> *Cultuurstelsel* was a system enforced by the Dutch colonial Government to exploit the native peasants. This system required the peasants to grow export crops on a certain per-centage of their land or, alternatively, to work for a number of days annually on state plantations or other state projects (Marcussen, 1990).

the rights recognised in the colonial period and the right used now, while the practice of the dual land system under the BAL 1960 is illustrated in Figure 4.1.

**Table 4.2:**  
**Categories of Indonesian Land Rights in the Late Colonial Period**  
**and the Colloquial Terms for These Rights as Used at Present**

Colonial Period	Colloquial Terms Used at Present
Rights allowed to Indonesian <i>Hak Tanah Kongsi</i> <i>Hak Tanah Usaha</i> <i>Hak Milik Adat</i>	<i>Hak Garapan (Use Right)</i> <i>Hak Girik (Tax Letter Right)</i> <i>Hak Girik (Tax letter Right)</i>
Rights allowed to foreign landlords <i>Eigendom particuliere</i>	<i>Tanah Negara (State Land)</i>
Right held by colonial Government <i>Domein van den staat</i>	Non-existent

Source: Leaf, 1993

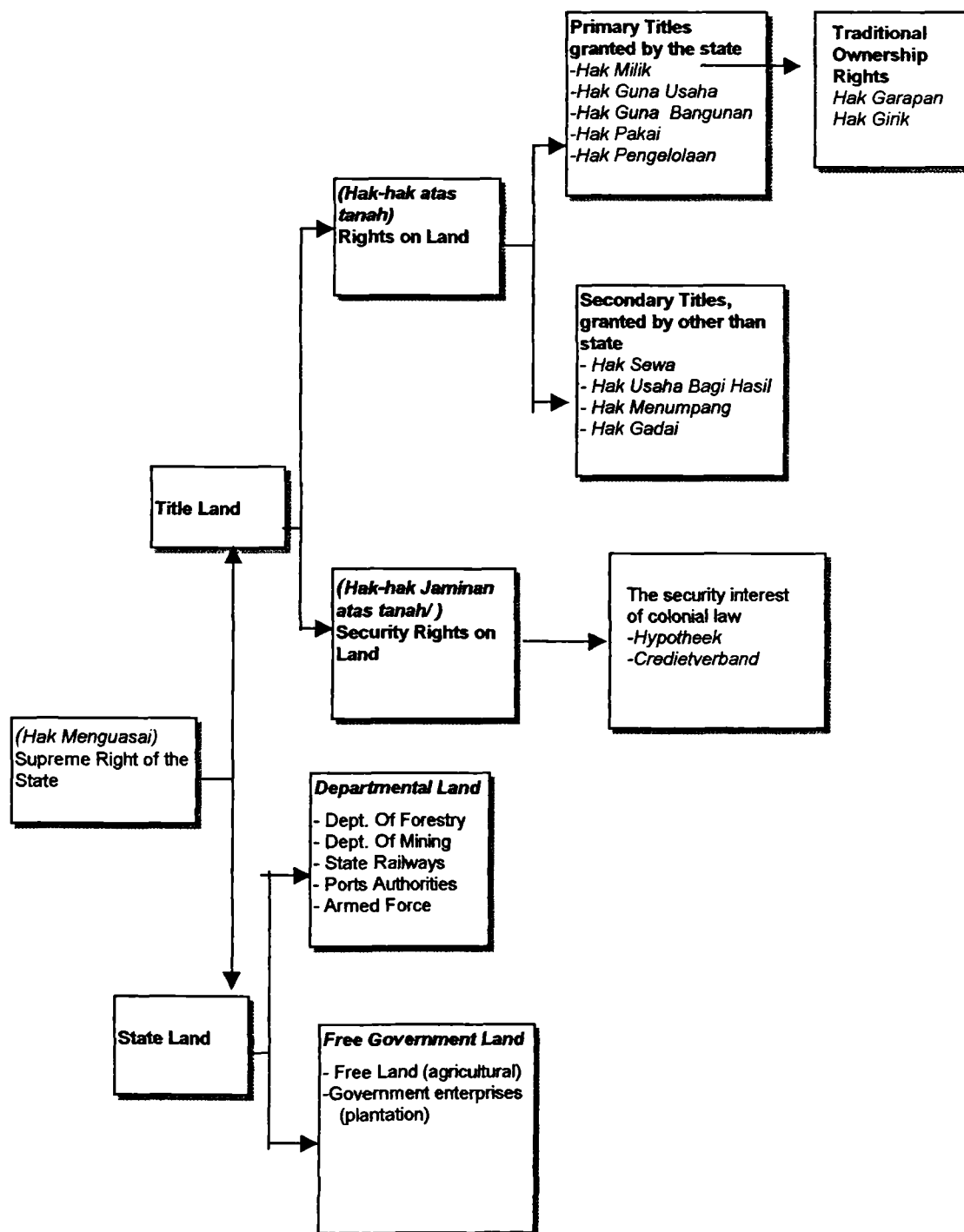
*Adat* law can be characterised as local, unwritten and dynamic. With these characteristics, it is difficult to deal with *Adat* ownership rights particularly to prove and to acquire land for development. This is certainly the area where abuse of law mostly happens. However, Struyk, Hoffman and Katsura (1990:123) noted that:

*"...the presence of Adat law has both the advantage and disadvantage. Abolishing the Adat law would have created an untenable situation in all of those areas where western rights were non-existence. By both leaving Adat law intact, and in attempting to base the formal law upon Adat principle, continuity and stability were supported, and the rights of Adat land holder were not adversely affected."*

It is important to note in the discussion of land law for the land development how the BAL stipulates that the different types of ownership right are given to different types of owner. BAL stipulates that a corporation can not own land on *Hak Milik*, while individual land is usually owned under *Hak Milik* or *Hak Tanah Adat*. An individual may buy land under *Hak Milik* and transfer the land to his/her possession under the same legal status, but this procedure is not applied to a corporation. Accordingly, a private developer who wishes to buy

land has to first release the land to the Government and only then the Government grants the land to the developer with *Hak Guna Bangunan*.

**Figure 4.1:**  
**The Dual Land System in Indonesia**



Source: Adapted from Budi Harsono, SB Silalahi & I Made Sandi as quoted by Marcussen (1990).

This is known as Master Title. Only when this tenure has been granted then the developer can start to split the title for individual buyers under *Hak Guna Bangunan*, which later can also be transferred to *Hak Milik* after satisfying some requirements. But, before the private developers can start to release the land they have to obtain *Location Permit*<sup>4</sup> which is the first formal step in formal land development process.

### ***Urban Planning Tradition<sup>5</sup>: Incompatible?***

Some of policy tools to pursue urban land policy objectives are planning regulations. Many cities in the world use master plans, zoning, subdivision regulations, building-codes, and other public policies to shape development. Indonesia has also adopted planning regulations as one of its policies to control land development. The first Planning Act ever enacted in the Republic of Indonesia was The Act No. 24 of 1992 concerning Spatial Planning. This Act is to repeal the Colonial Product's Planning Act and at the same time also formally introduce the concept of spatial plan in Indonesia after several debates and conflicts in the planning approaches. As it has also happened in other developing countries, planning practice in Indonesia has experienced several changes influenced by the planning paradigms, which emanate globally, as seen by the development of planning theory and the concept behind the theory.<sup>6</sup>

The history of the these planning Acts dates back from the beginning of the 1800s when the Colonisation started and eventually still handed down some of

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<sup>4</sup> To be discussed later in this Chapter.

<sup>5</sup> Urban Planning traditions in this sense are derived from what Safier said as traditions in urban planning which can be distinguished from the combination of the constituent elements, or 'component' such as : " ... *a philosophical base, a set of explicit objectives, a form of operation, a methodology, organisational form - and system of technical, professional, educational, research and operational institutions and forum for its further development and consolidation...*". Safier (1983) distinguished planning traditions as: Urban Design, Town Planning, Regional Planning, Transport Planning, Economic Planning, Process Planning, Project Planning, Corporate Planning, Social Planning, Development Planning, Gender Planning, Cultural Planning, Environmental Planning. See also Hall, (1988), Levy (1992), Moser (1993).

<sup>6</sup> The involvement of international aids and technical assistance in shaping the planning tradition in developing countries has been in the articles of many scholars, see for example King in Cherry (1980), Safier (1992), Rodwin (1981) and Hall (1988).

the conflicts in the planning and housing systems in Indonesia. By the beginning of the 18th century, as the VOC (*Verenigde Oost Indische Compagnie*) held the majority of the coastal territories in the archipelago, there were some changes in the urban pattern. The setting up of a European administration, as the result of growth in trade, stimulated the change in urban pattern even more. The establishment of the Dutch colonial administration strengthened the position of Dutch families in town, while the majority of Indonesians had to live in *Kampung* with severe condition.

It was the promulgation of the public Health Act in Britain in 1848, which encouraged the promulgation of the physical-planning act in the Netherlands in 1901. This act of establishing municipal planning procedures, was a simple system concerned with planning and controlling the extension of towns.<sup>7</sup> This act was gradually shifting to the more complex system following scientific approach of planning developed in the British tradition of town planning.<sup>8</sup> The growing awareness of environmental problems of cities in Europe had its impact in Indonesia as well. The severe condition of *Kampung* areas received more attention as the number of Europeans living in Indonesia increased. This was expressed in the “*Tenth International Housing Congress*” held in Scheveningen in 1913 in a paper by HF Tillema entitled: “*From Living And Habitation, From Building, House and Gardens*” which examined the living conditions in Semarang’s *Kampung* (Bogaers and de Ruijter in Nas, 1986).

In the 1900s, public health concerns had inspired some Europeans in Indonesia to make plans for their settlements including the enhancement of *Kampung* conditions by imposing regulations concerning sanitation, health and building regulation. This was further encouraged by the passage of Decentralisation Act in 1903 which enabled the local authorities to manage their own administrations

<sup>7</sup> Nas (1982) in his book “The Indonesian Cities” discussed the development of town and town planning in Indonesia and showed the different patterns of Indonesian towns.

<sup>8</sup> See for instance, King in his “Exporting Planning: The colonial and neo-colonial experience”, and in Cherry (1980). See also Hall (1988).

including the construction and maintenance of roads, waterways, inspection of buildings and housing, housing improvement and town expansion. As a result of the Decentralisation Act, several cities issued regulations concerning physical or building development, including *Bataviasche Plannenverordening 1941*; *Bataviasche Bestemmingkrigene en Bouwtypenverordening 1941*, and *Bataviasche Bouwverordening 1919 -1941* in Jakarta which regulated the town development based on designated area.

All of those regulations constituted building construction provisions rather than urban planning. It was Ir. Karsten who shifted the focus to the urban planning during his work in Indonesia in 1914 - 1945. In 1920 he wrote a report entitled "Town Planning in Indonesia," which contains his concept of town construction and the role of Government in the town planning. His report encouraged the establishment of the Town Planning Committee by the Dutch Colonial Government. The important result of the committee was the Town Planning Bill, which later became the first Town Planning Act in Indonesia. The town planning at that time was strongly aimed at improving housing conditions, this type of planning had been matured in what is now called 'town planning tradition'. Thus the growing awareness on the effort to enhance the housing conditions focusing on the specific building techniques, sanitation and *Kampung* improvement influenced the planning model in Indonesia.

In the early years of the Independence the policy of the new Republic of Indonesia was focused on defending the independence in political and military way. In the first decade of the Independence period, Indonesia's economic history was characterised by dislocation and declination. Under these conditions, most of the infrastructure left by the Dutch colonial ruler was neglected and became unusable.<sup>9</sup> Between 1951-1960 with the assistance of a UN team, Singapore, the neighbouring country of Indonesia, prepared a master plan for its

<sup>9</sup> Higgins (1968: 678), as quoted by Hill (1996), characterised Indonesia as the "chronic dropout". Higgins concluded that "Indonesia must surely be accounted the number one failure among the major underdeveloped countries". See also Glassburner ed. (1971).

tiny city-state.<sup>10</sup> This effort seemed to encourage the Indonesian Government to launch the first ever Five-year Development Plan (1956-1960) which was followed by the establishment of a National Planning Council in 1959. This Council then launched an Eight-year Development Plan (1961-1968). Both plans set ambitious targets but provide scanty guidance on the matter of finance (Mackie in Glassburner ed. 1971: 49-50).

In 1969, under Suharto's presidency, the Government launched the first series of Five-year Development Plan, which was aimed at economic development as a national policy to overcome the problems, which emerged during Soekarno's administration. The world also marked 1960 as the beginning of "development planning tradition" focusing in the provision of basic needs. Its objective is "development" in a broader sense since development planning can be defined as a continuing Government planning activity in cities, towns, and villages aiming to achieve economic growth and social progress.<sup>11</sup>

The development planning, however, was emphasised on the development of the country as a whole. Development planning tradition which could fit into urban affairs did not emerge at that time as the town planning tradition as regulated in the Planning Act produced by the Dutch Colonial Government was still imposed. At a regional level, however, Development Plan for Jakarta Metropolitan Region, which then is known as *Jabotabek* region,<sup>12</sup> was launched by Ministry of Public Works (MOPW) in 1974 with the assistance of Dutch Government.<sup>13</sup> After this plan, several projects assisted by foreign donors and

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<sup>10</sup> Koenigsberger (1964) discussed the action planning approach which he and his team suggested for the development of Singapore. See also Winarso (1990b).

<sup>11</sup> Mattingly (1988) described development planning as a continuing Government planning activity in cities, towns and villages aiming to achieve economic growth and social progress. See also Safier (1983).

<sup>12</sup> See Chapter V for the discussion of the development of *Jabotabek* region.

<sup>13</sup> The *Jabotabek* Plan was initially developed with the assistance of the Dutch Government in 1970. The planning concept was inspired by the model of "*Ransstad*" in the Netherlands (Giebels, 1986). The concept includes self-contained growth centre. Basically two main models were introduced. One was a concentric model and the other was a linear model. Since then, the plan has been reviewed three times,



consultants were also launched.<sup>14</sup> Nonetheless, these kinds of plans are not legally binding.

It was not until 1974, when the Government established the Regional Development Planning Board (*BAPPEDA*),<sup>15</sup> that the development planning tradition for urban affairs be brought out.<sup>16</sup> The development planning tradition, known as the Local Five-year Development Plan (*REPELITADA-Rencana Pembangunan Lima Tahun Daerah*), is prepared by the Local Planning Board and approved by the House of Representative to be used as a guideline for social and economic development. The plan is presented in a descriptive explanation.

At the same time, the local Government should also carry out physical planning which mainly deals with the laying out of land use and infrastructure as required by the town planning tradition. At the local level, although the two traditions were carried out by the same agency, namely the *BAPPEDA*, they never match each other particularly between its programme and its financial supports.<sup>17</sup> Furthermore, the town planning tradition, which is statutory, is largely done

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however there was no significant alteration to the basic concept, except for the prediction of population growth. The last review conducted in 1992 re-stressed the proposed development along an east-west and a north-south axis. The plan, however, is not legally binding.

<sup>14</sup> This kind of the so-called project planning was in fact the result of bargaining policy with the donor institutions such as World Bank and other aid agencies. Since then project planning has become particularly important in the fields of housing, infrastructure services, transportation, land development and employment promotion. Safier noted that the introduction of such projects has been most prominently associated with international aid and technical assistance programme in the urban fields. See Safier (1992).

<sup>15</sup> In 1974, the Government announced regional development strategy including the establishment of *BAPPEDA*. Bappededa is responsible for the locally and centrally financed development plan, and for preparing the annual multi-year development plan (*REPELITADA*) which set priorities for development options (see also Hill, 1996).

<sup>16</sup> This may be compared to the shift of the development plans tradition in Britain in 1968 when the act then was emphasized on major economic and social forces and on broad policies or strategies for large area (Cullingworth and Nadin, 1994).

<sup>17</sup> There had been several attempts to overcome this problem, one of these was by preparing a national physical plan which could guide the infrastructure investments. In the 1980s Indonesia finished its National Urban Development Strategy (NUDS), which proposed an urban typology according to city's function, and ranked cities hierarchically into national, regional and local development centres. This was intended to guide the infrastructure investment (NUDS, 1985; see also Watts, 1992).

under the responsibility of the Ministry of Home Affairs (MOHA). Whilst, at the same time, the Ministry of Public Works (MOPW) for a long time has also been carrying out urban physical planning which is mainly used for their budget planning such of *Jabotabek* Plan or West Java Urban Development Project (WJUDP). Therefore, at local level there were three plans (i.e. Development Planning, Project Planning and Town Planning) being carried out at the same time for the same urban area. And this implies the competing agencies responsible for planning.<sup>18</sup>

The two competing, incompatible planning traditions had been one of the hurdles in the planning implementation in Indonesia. The promulgation of the new Planning Act in 1992, known as Spatial Planning Act No. 24 of 1992, thus, is aimed at clarifying the relation between town planning tradition (*Rencana Tata Ruang-RTR*) and development planning tradition (*REPELITA*). The spatial planning is described as the reflection of development plan being implemented at national, regional or local level. This seems to be the Government's effort to deal with the problems of implementing the conventional town planning tradition. The 1992 Act stipulates that there should be plan(s) in each tier of Government (see Table 4.3). The plan is called *Rencana Tata Ruang Wilayah* or Spatial Plan.<sup>19</sup> For Provincial Government the plan is called *Rencana Tata Ruang Wilayah Propinsi* or Spatial Plan for Provincial Area, for *Kabupaten* the plan is called Spatial Plan for *Kabupaten* Area, and for Urban area the plan is called Spatial Plan for Urban Area. Beside these plans, the Act also specifies other plans such as Spatial Plan for Functional Area and Technical Plan for Urban Area.

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<sup>18</sup> To synchronise these two versions of urban planning tradition (project planning and town planning), in 1985 MOPW and MOHA launched Inter-ministerial Decree No. 503/KPTS/1985 - 650-1595, which was then followed by MOPW Decree No. 640/KPTS/1986 regarding Urban Plan and MOHA Decree No. 2 of 1987.

<sup>19</sup> There is no official translation for *Tata Ruang Wilayah*, which can literally be translated as Spatial Plan, although, arguably, the plan itself seems to focus more on Physical lay-out rather than Spatial lay-out.

Table 4.3:  
Indonesian Planning System

Executive Head	Level	Tiers	Strategy	Development Plan	Sectoral Planning	Spatial Plan	Planning Co-ordination	Budgeting
President	Central	First Tier	National Development Guideline (GBHN)	National Five-year Development Plan (Repelita)	Sectoral	RTRWN	National Consultation (Konas)	National Budget (RAPBN)
Gubernur (Governor)	Level I	Second Tier (27 Provinces)	Regional Development Guideline (Poldas Dati I)	Provincial Five-year Development Plan (Repelita Dati I)	Sectoral I	RTRWP	Development Co-ordination I (Rakorbang I)	Provincial Budget (RAPBD I)
Walikota/ Bupati (City Mayor)	Level II	Third Tier (55 Municipalities / Kotamadya) 246 Counties/ Kabupaten	Local Development Guideline (Poldas Dati II)	Local Five-year Development Plan (Repelita Dati II)	Sectoral II	RTRWK	Development Co-ordination II (Rakorbang II)	Local Budget (RAPBD II)

Source: Author

Note: RTRWN : Rencana Tata Ruang Wilayah Nasional; RTRWP = Rencana Tata Ruang Wilayah Propinsi; RTRWK = Rencana Tata Ruang Wilayah Kabupaten/Kotamadya; RAPBN = Rencana Anggaran Pendapatan dan Belanja Negara; RAPBD = Rencana Anggaran dan Belanja Daerah

The principle differences of each plan are in the scale of the map presented, and the approval process of the plan.<sup>20</sup> However since the 1992 Act does not mention the plan making procedure, the plan preparation is still based on MOHA regulation No. 2 of 1987 and MOPW Regulation No. 540/KPTS/1986, which actually were intended for the preparation of the old version of plans. The procedure can be seen in the following chart (Figure 4.2).

In the preparation of spatial plan, the development plan, which consists of both the Local and the National Five-year Development plans are to be considered as the bases.. The spatial plan becomes statutory after the approval of the local assembly and ratification of MOHA. The statutory plan is to be reviewed every five to ten years. Ideally the plans are the guidance for land and infrastructure development. In practise, however, it happens rarely that the physical development is in line with the plans. In Jakarta, as described by Server (1996:29),

*“... numerous are the cases where the private sector has distinctly different ideas about the location of its investments e.g. shopping centres and office complexes on land originally designated for housing.”*

Devas and Rakodi (1992:19), with particular reference of Jakarta, observed that

*“...the means with which to implement these plans seem to have lacking...”*

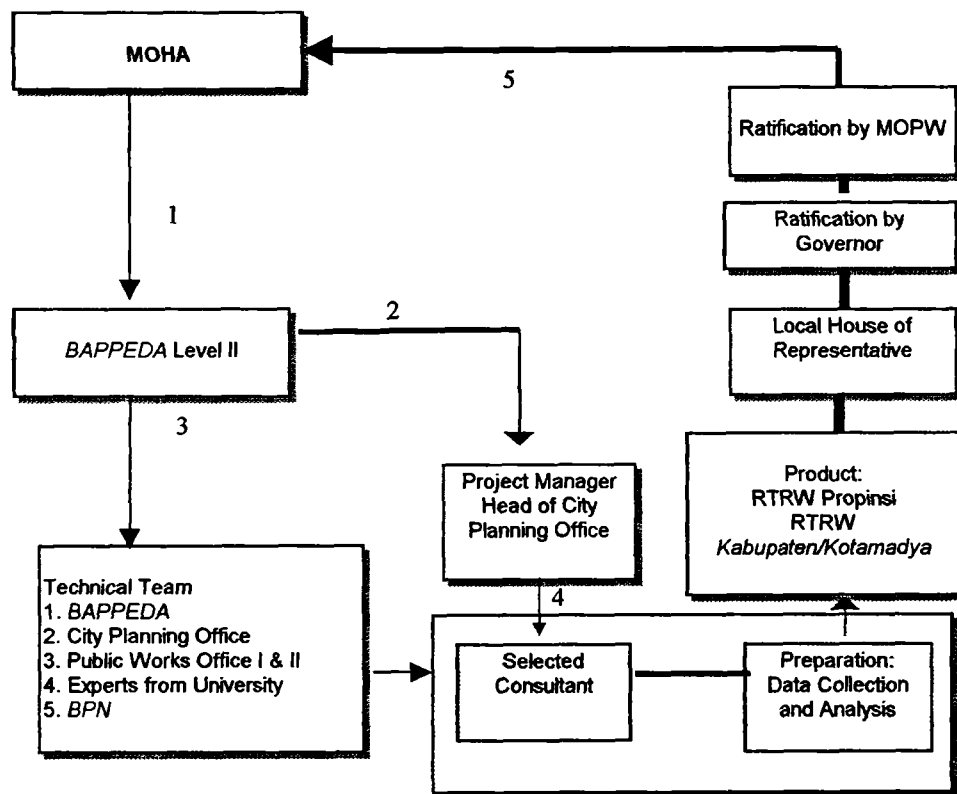
A change on the statutory plan can be made and approved in the next review of the plan, which opens the possibility to make alteration to the plan.<sup>21</sup> One cause of the ineffectiveness of the plan is the inefficient use of limited resources

<sup>20</sup> Spatial Plan for Provincial Area should be based on a map at a 1: 100,000 scale (or depending on the area of the province). This plan should be prepared by the Provincial Government and approved by Ministry of Home Affairs upon recommendation from the Ministry of Public Works. For *Kabupaten*, the plan should be represented in a map of 1: 50,000 scale and for Urban area should be represented in a map of 1: 10,000 scale. Both plans should be prepared by Level II Local Government (*Kabupaten* or Municipality) and approved by Ministry of Home Affairs after a ratification by the Governor and a recommendation from the Ministry of Public Works. The Spatial Plan for Functional Area and Technical Plan should be presented in maps of 1: 5,000 and 1:1,000 scales respectively. These plans could be prepared by developer (in the case of new land development) and should be approved by City Planning Office (*Dinas Tata Kota*) at *Kabupaten* or Municipality.

<sup>21</sup> Server (1996) pointed to the corruption as the cause for the ineffective use of the spatial plan.

particularly those for infrastructure development (Van der Hoff and Steinberg, 1992).<sup>22</sup>

**Figure 4.2:**  
**Procedure for the Preparation of Provincial and *Kabupaten/Kotamadya* Spatial Plan**



**Note:**

- 1 : Provides grant
- 2 : Appoints
- 3 : Sets up
- 4 : Select Consultant
- 5 : Approval

→ Preparation Procedure  
 → Approval Procedure

**MOHA** : Ministry of Home Affairs

**MOPW** : Ministry of Public Works

**BAPPEDA**: Badan Perencanaan Pembangunan Daerah (Local Development Planning Board)

**BPN** : Badan Pertanahan Nasional (National Land Agency)

**RTRW** : Rencana Tata Ruang Wilayah (Spatial Plan)

Source: Adopted from Winarso 1988

<sup>22</sup> Many authors have criticised the practise of town planning in third world countries as either being so out of date, that they no longer provide for current and future growth or too ambitious, of non strategic quality and give little attention to priorities and constraints of city's population (Amos in Devas and Rakordi eds., 1993; Taylor and Williams, eds., 1982).

Efforts to make the plans more effective, particularly for urban infrastructure investments, had been initiated by the Directorate General of Human Settlements of Ministry of Public Works (MOPW). In 1985 the Government of Indonesia launched a programme called Integrated Urban Infrastructure Development Programme (IUIDP) using NUDS<sup>23</sup> project as the base line data. This programme was aimed at channelling the town planning tradition into urban development planning tradition, which actually had been the responsibility of MOHA. Among the aims of IUIDP, were: avoiding duplication and fragmentation of infrastructure investment between central and local Government; integrating public sector's investment to achieve an increasing urban productivity, encouraging further private sector investment and guiding the private sector development (Van der Hoff and Steinberg, 1992. Zaris, et al., 1989).

The implementation of IUIDP should be based on the structure plan.<sup>24</sup> However, during the first year of IUIDP it was recognised that not all cities<sup>25</sup> have statutory plans and if they did have, most of the plans were unrealistic. Thus, in 1987 a new form of development plan was introduced especially to guide the implementation of IUIDP. It incorporates the existing development plans either approved, pending approval or in preparation (Zaris et al., 1989; Van der Hoff and Steinberg, 1992). This new form of plan was named IDAP (IUIDP Development Assessment Plan) and is to be used as a spatial reference for the

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<sup>23</sup> See footnote No. 17.

<sup>24</sup> The first IUID was implemented in 1984, at that time the urban plan was based on the SVO, SVV and the ministerial degree concerning urban planning. There were four types of plans: First, General Urban Area Plan (RUTRP-*Rencana Umum Tata Ruang Perkotaan*) which defines the long term (20 years) strategic development framework for town and its immediate hinterland. Second, City Structure Plan (RUTRK-*Rencana Umum Tata Ruang Kota*): a long-term plan restricted to the town administrative boundary: which serves as the basis for development control. Third, Detailed Urban Plan (RDTRK- *Rencana Detil Tata Ruang Kota*) which shows the priority of development areas, showing detailed land use and infrastructure, and proposal for implementation. Fourth, Technical Plan (RTRK-*Rencana Teknik Ruang Kota*), which shows detailed development proposal for selected areas to the level of individual plots, with recommendation for plot layout, land use, access, infrastructure etc. (see Zaris, et al., 1989).

<sup>25</sup> Zaris et al. (1989) estimated that of 830 recognised urban centres, about 570 had no development plans, whether formally approved or not.

subsequent multi-year infrastructure investment plan (Van der Hoff and Steinberg, 1992).<sup>26</sup>

### *Control over Development*

Basically two approaches are adopted by the Government to control land development in urban areas. First is a negative approach through permit system to ensure that the development would always be in line with the Government's policies. Second is a positive approach by directing development through direct land acquisition by public authorities. A critic to the negative approach is that this approach can do little to produce serviced land (Devas, 1983). On the other hand it is claimed that direct investment in infrastructure development, hence, positive approach, is likely to be a much more effective way of directing land development than rule setting or control devices.

### *Negative Approaches*

In Indonesia, the negative approaches used are basically property tax and permit system. However, tax system has never been effectively applied. The only tax on land, which fairly works at present, is tax levied on land and buildings (*PBB - Pajak Bumi Bangunan*). This property tax is levied on 1/1000 of the capital market value of the land. This tax, however, is designed for revenue enhancement<sup>27</sup> and is not a tool for directing development. Other taxes such as betterment taxes and development charges<sup>28</sup> are not particularly important since they have practically never been implemented, although some local Governments have tried and again, they are actually intended to raise public

<sup>26</sup> Zaris et al. (1989) claimed that IDAP is an action plan in the sense that this new form of plan avoids cumbersome plan preparation and approval procedure.

<sup>27</sup> Hill (1996:51) noted that local Government's revenue on PBB began to rise quickly since 1986, although the amounts involved are still modest, and the collection is hampered by the pervasive corruption which exists in land market. Server (1996:29) estimated that, although the tax has been the prima donna of revenue for city administration its loss has reached 50 per cent of the projected property tax income.

<sup>28</sup> The Government with Ministry of Home Affairs Regulation No. 5 of 1996 has introduced development charge. This charge is to be administered by local Government. However it seems that the local Government is reluctant to implement the regulation.

revenue. Vacant land tax to direct development is not implemented. It is stipulated in the Planning Act that all development, is subject to prior approval from the Government. This could be approval from local Government up to approval from central Government depending on the sizes and types of development. In practice, due to the unclear definition of development,<sup>29</sup> many development, especially that which is developed informally, is outside the legal control (Struyk, Hoffman and Katsura, 1990). Formal land development, however, has to be passed through several controls, which are done through permit system. For land development there are several permits, which can be grouped into four (Kombaitan, 1995) (see Figure 4.3).

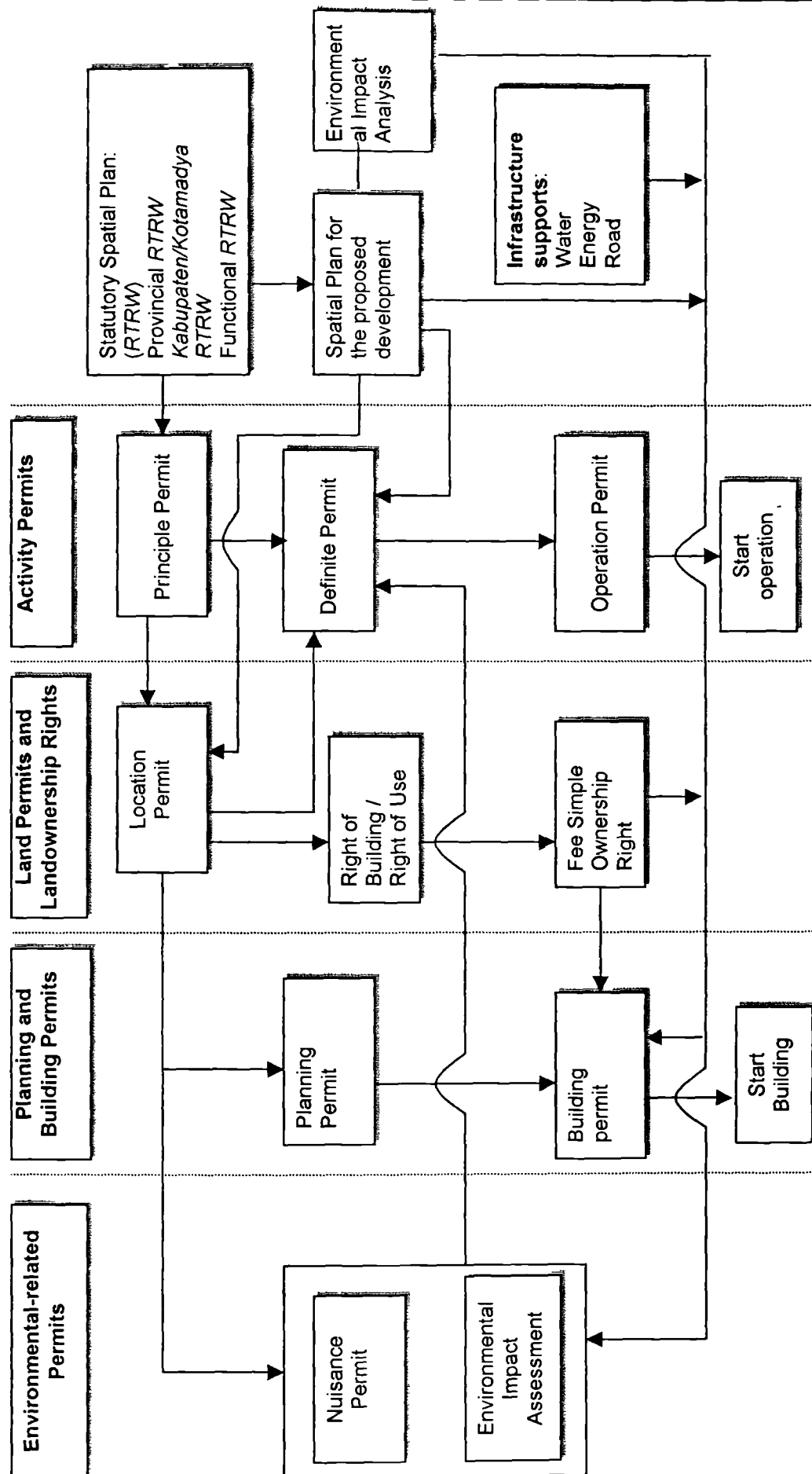
**1 Activity Permits**, these permits are granted to acknowledge that the proposed development activities are in conformity with the statutory spatial plan, and are needed in the proposed location. The permits are issued by institutions related to the proposed activity (e.g. for Industrial development the permit is issued by the Department of Industry). Three permits are issued under this group:

- a. The Principle Permit (*Ijin Prinsip*). This is basically a pre-permit to ensure that the proposed development is in conformity with the Spatial Plan and the Development Plan of the *Kabupaten*/Municipality or Province. Residential Development is a particular case. Unlike other land development, permit for residential development is issued by Bupati (the head of *Kabupaten*) if the proposed development is in *Kabupaten*, or City Mayor in the case of Municipality. This permit is used as a requirement to apply for Location Permit.

<sup>29</sup> In Britain for example, development is legally defined as the carrying out of building, engineering, mining or other operations in, on, over or under land, or the making of any material change in the use of any building or other land (Cullingworth and Nadin, 1994: 80-81). There is no such definition in the Planning Act.



**Figure 4.3:  
Permits Procedure for Land Development**



**Source: Adapted from Kombatian 1995:19**

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- b. The Definite Permit (*Ijin Tetap*). This permit is to acknowledge that the land development activity has been started, that the land has been acquired and that the environmental feasibility has been known through the carrying out of the Environmental Impact Assessment (EIA). Again, residential development is a special case. Proposal for residential land development does not need this permit (Kombaitan, 1995).
  - c. Operation Permit (*Ijin Usaha*). For non-residential development an Operation Permit is needed to ensure that the proposed activity (e.g. industry, mining) is in conformity with other Government regulations (e.g. safety regulation, labour related regulations).

## 2 Land-related Permits and Land Rights

Two permits are issued under this group:

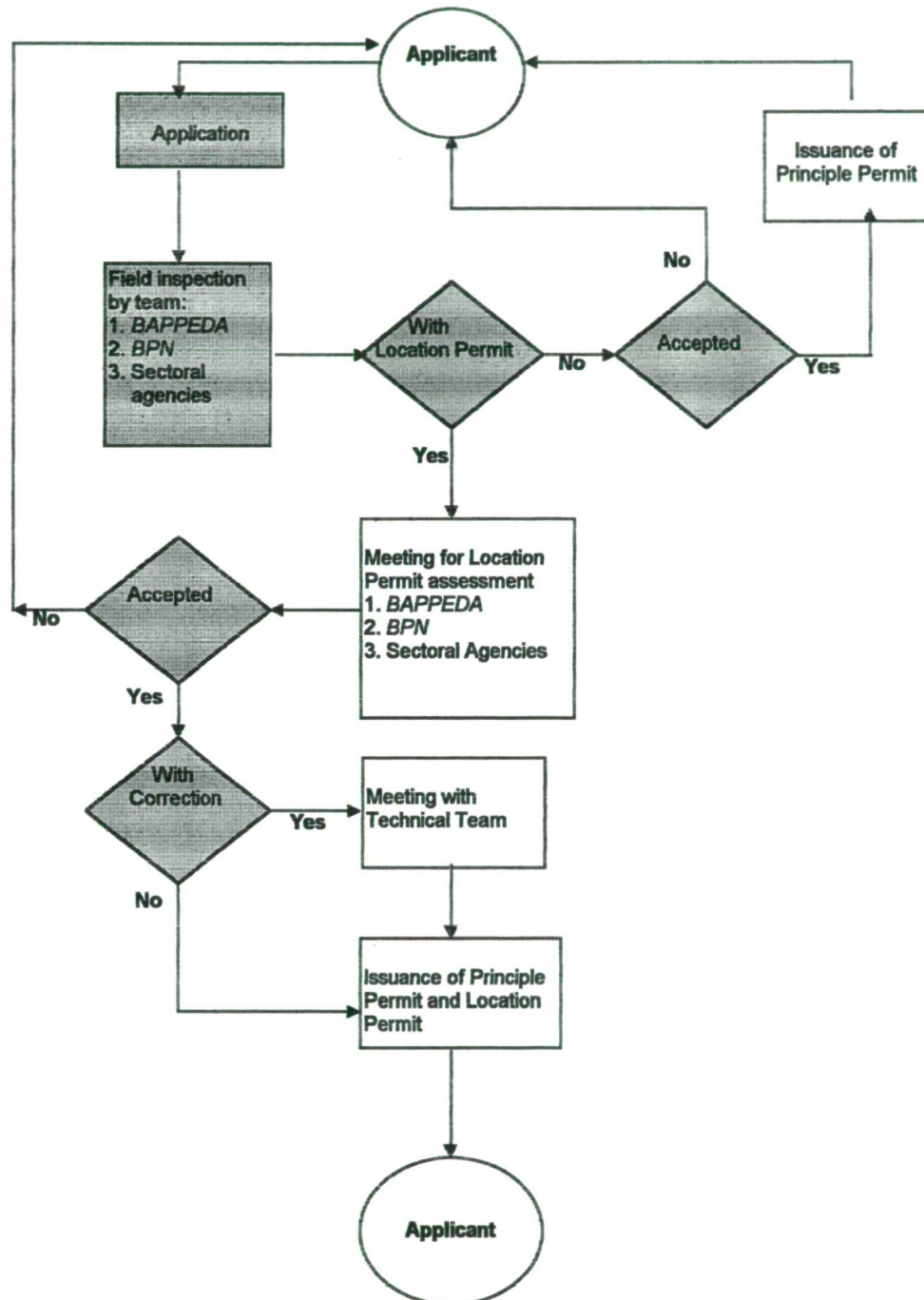
- a. Location Permit (*Ijin Lokasi*). This permit is aimed to officially declare that the designated area is appropriate for the proposed development based on the finding that the proposed development is in line with the Statutory Spatial Plan or Development Plan. This permit is issued by *BPN* (The National Land Agency). The permit is essential for developers, as this permit is the basis for land release (see Figure 4.4).
- b. The holder of *Ijin Lokasi* can further proceed to release the land, in order to apply for *Hak Guna Bangunan (HGB)* to be able to start the physical development.

## 3 Planning and Building-related Permits

Two permits are issued under this group

- a. Planning Permit (*Ijin Perencanaan*). This permit enables the developer to start carrying out land development. This permit is granted by the

**Figure 4.4:**  
**Flow Chart for the Issuance of Location Permit and Principle Permit**



Source: Author, Based on several regulations

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Local Public Works Office or City Planning Office upon consideration that the plan has obtained Location Permit and that the plan is technically acceptable. In some areas an Advice Planning might be needed to ensure that the proposed development is sufficiently provided with infrastructure and other services.

- b. Building Permit (*Ijin Mendirikan Bangunan*). This is needed to start building construction. This permit is issued upon completion of the technical standard such as BCR, FAR, Building Height, Set Back Lines, Building Orientation, Plot Size. The application for this permit should be accompanied by a Technical Plan for Urban Area. The Permit is issued by the Local Public Works Office.

**4 Environmental-related Permits.** These permits are basically needed to ensure that the proposed development is not harmful to the environment. Two permits are issued under this group:

- a. Nuisance Permits (*Ijin Ganguan*) or ijin HO (*Hinder Ordonantie*). This permit is needed to acknowledge that the proposed development will not create trouble to the people living nearby. The permit is issued by *Bupati/Walikota* after a ratification by the people living close to the proposed project.
- b. EIA (Environmental Impact Assessment). This permit is needed to ensure that the proposed development has gone through an environmental impact feasibility study. The important documents under EIA are the RKL (*Rencana pengKelolaan Lingkungan*) which specifies the design and operating plans for mitigating potentially negative impact; the RPL (*Rencana Pemanfaatan Lingkungan*) which sets out the plans for monitoring and reporting on actual environmental impact.

The practice of development control through permit system mentioned above largely relies on the availability of Spatial Plans. As stipulated in the 1992 Act, the plans should be prepared by the local Government (level I or level II), the plan making process, however, is still based on the Ministerial Decree as illustrated in Figure 4.2. Due to the limited capacity of local Government agency responsible for planning preparation, the use of professional consultant in the preparation of the plans is advisable. Virtually this practice creates a loophole in the implementation of development control, particularly on the designation of the use of the land.

The clause that permits the use of consultant opens a possibility for developers to influence the preparation of Spatial Plan so that the plan accommodates their interests. The plan of Bumi Serpong Damai (BSD) new town in *Kabupaten* Tangerang is the case in point. At that time (1986) a statutory plan was not available in *Kabupaten* Tangerang.<sup>30</sup> The Structure Plans (includes the Plan for Bumi Serpong Damai) for *Kabupaten* Tangerang were prepared by a group of consultants<sup>31</sup> owned by the developer. The consultants accommodated the intention of developer to develop new town at Serpong. These plans was approved by *BAPPENAS*<sup>32</sup> and was formally adopted in 1987. In 1989 RUTRK Serpong<sup>33</sup> was approved as bye-law for *Kabupaten* Tangerang.

Authors on land management (notably Lee, 1994) have maintained that the complexity of administrative procedures in getting development permission increases cost. This is particularly true in the Indonesian case. The lengthy and complex procedures open the possibilities for fraudulent acts especially in the

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<sup>30</sup> At the end of the 1980s some local Governments were not equipped with proper development plans. This was either because the area was not intended for development or because the Government had not made the plan.

<sup>31</sup> The plan was prepared by PT Arkonim, PT Pembangunan Jaya and a Japanese Consultant. The first two companies are owned by Ciputra who is also a share holder of PT Bumi Serpong Damai.

<sup>32</sup> *BAPPENAS* was the head of the team for planning and Development of *Jabotabek* Area.

<sup>33</sup> See footnote 24 on the old version of Plans.

tariff payment for each permit and its processing time. The cost involved in the application process varies. There are, however, official tariffs for each permit. It is estimated that the total regulatory cost of formal land development in *Jabotabek* is about one third of the total project cost. The biggest contribution is the cost of restricting the supply of land because of the delay in the Location Permit process (Lee, 1994). Author's interview with developers in 1996 confirmed the classification of tariff into five types as written by Struyk, Hoffman and Katsura (1990) as the following:

1. Tariffs with specified amount written in the regulations.
2. Tariffs without specified amount written in the regulations, but with set out general categories.
3. Payment which is not supported by the regulations, but is acceptable as legitimate agency's operational and administrative cost.
4. Minor payments to officials to maintain good working relationships.
5. Major payments to speed the issuance of the next permit.

Table 4.4 below illustrates the tariffs for obtaining permits in *Jabotabek* region as compiled by a Property Magazine in Indonesia.

**Table 4.4:**  
**Cost for Obtaining Permits**

No	Type of Permit	Official Tariff	Unofficial Tariff
1	Principle Permit	Rp. 50/ sq. meter	Rp. 400 to Rp. 1,100 /sq. meter
2	Location Permit	Free	Rp. 100 to Rp 400 / sq. meter Compensation for Very Simple House Rp. 1,400,000 / unit
3.	Planning Permit	Rp. 50/ sq. meter	up to Rp. 200 / sq. meter
4.	Building Permit	2 % to 3 % of Building Cost	Fee up to 25 % of Official Tariff
5	Master Title <sup>34</sup>	Rp. 100 to Rp 300 / sq meter	up to Rp. 2,000 / sq. meter
6.	Splitting Master Title <sup>35</sup>	Rp 35,000 to Rp. 75,000 / Plot	up to Rp. 150,000 per plot

Source: Properti Indonesia, November 1996

<sup>34</sup> See discussion on land rights in this Chapter.

<sup>35</sup> See discussion on land rights in this Chapter.

Among the permits discussed above, the Location Permit has a significant impact in the supply of land for development (Struyk, Hoffman and Katsura, 1990; Leaf, 1991; Ferguson and Hoffman, 1993; Archer, 1993). Location Permit is basically a permit which is granted by the Government to acknowledge that the proposed location for development by private developers is in line with the Government's social and economic policy and conforms with the land use plan. The regulation was first introduced in 1974 with the issuance of Ministry of Home Affairs Decree No. 5 of 1974 after the increasing private sector investment<sup>36</sup> and in particular the emergence of private developers in the early 1970s.<sup>37</sup> This regulation was then added with a more detailed regulation on the procedure to obtain Location Permit. The most recent one is the decree of the State Minister of Agraria/Head of National Land Agency No. 2 of 1993, which further streamlines the procedure for the granting of Location Permit.

The positive side of this permit is that, theoretically, with this permit the Government can make an early intervention to the private developers such as to assure the construction of low-cost housing and to assure that the development is in line with other Government's policies. However, the unintended effects of this regulation are two sides. In one hand the developers complain that once they secure Location Permit, the land price would increase. On the other hand, the permit has been used as a 'pre-emption right'.<sup>38</sup> This allows the developers to free the land and force the landowners to sell the land in an even lower price.<sup>39</sup>

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<sup>36</sup> See Hill (1996) on the conglomerates and the growth of private sector in Indonesia.

<sup>37</sup> See Chapter V.

<sup>38</sup> In Indonesian Land Law, a right to gain buying right to land by settling before others as intended by Pre-emption right is not recognised. This right offers public authorities the opportunity to acquire land when landowner is interested in selling it (Drabkin, 1977).

<sup>39</sup> Dharmawan (prob. 1995) asserted that the landowners are under pressure to sell the land because: First, the landowner can not sell the land to other buyer because the transaction will not be processed by the official. Second, the landowner can not sell the land for other use because their land has been designated for residential use. Their land will be blocked or they will be alienated from the new residential area developed by developer. Third, if the landowner keeps holding the land a new Location Permit holder will probably come and the process will be repeated again.

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Furthermore, this permit also allows the holding of large amounts of urban land, constraining land supply (Ferguson and Hoffman, 1993; Lee, 1994).<sup>40</sup>

Securing Location Permit, however, does not directly guarantee the developers to be able to easily release the land, as they still have to pass through a set of procedures. The problem of releasing land is the agreement upon land price as there is a lack of adequate standards for determining the price or the compensation.<sup>41</sup> To avoid this, the Government regulation stipulates that Government agencies must use the service of a team established by the Government for negotiating the land price with the landowner, whilst private sectors are encouraged to use the service. In practice most of developers also use this service to avoid disputes over land price and legal status of the land.<sup>42</sup>

#### *Positive Approaches*

Positive approaches by encouraging the private sector or the Government to promote development are also used as tools in land policies in Indonesia. This approach, to some extent, has been successfully implemented through land consolidation / and readjustment in Bali, Medan and Surakarta (Archer, 1994).

Direct involvement of the Government in urban land development in Indonesia has been carried out in several ways. But the policy which may affect the private sector residential land development in urban fringe area is the Guided Land Development (GLD). However, since its recommendation in 1980, this policy has never been implemented due to several reasons. The critic to GLD is that since it provides services to private landowners, it increases the value of the land (Devas, 1983).

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<sup>40</sup> See Chapter VII.

<sup>41</sup> Michael Leaf in his dissertation revealed that there were incidents of direct physical threats to landowners in order to release the land in an even lower compensation rate (Leaf, 1991).

<sup>42</sup> Author's interview with developers in 1996. See also Struyk, Hoffman and Katsura (1990) and Leaf (1991).



By 1980s it was realised that the pressure of development had spilled over to the fringe area of Jakarta,<sup>43</sup> and thus in 1980 the *Jabotabek* Metropolitan Development Plan recommended a programme labelled Guided Land Development to accommodate the rapid population growth of mostly low-income people. GLD is basically a land management technique for guiding the conversion of urban fringe land holding from rural to urban use (Archer, 1993). This technique is similar to Land Consolidation in the sense that GLD also needs rearrangement of land parcel and subdivision of land to supply building plots and to accommodate the growth of *Kampung* settlements, as well as the installation of infrastructure network including roads, drainage and piped water.

Under this scheme, the Government guides the development by laying out minimal infrastructure lines so as to attract private land subdivision and self housing construction (Devas, 1983). The initial GLD scheme for *Jabotabek* was proposed to cover 9,250 hectares, aimed at providing urban services in gradual basis within 15 years (*Jabotabek* Metropolitan Development Report 1980). With this scheme it was expected that the development would accelerate and would take place within the framework of the planned lay-out of roads, drainage and water supply lines. The West Java Urban Development Project Report (1985) recommended smaller size (40 hectares) of GLD programme on eleven sites in *Kotamadya* (Municipality) Tangerang.

The basic differences between GLD and Land Consolidation are on the lay-out plan, on the financial arrangement and on the legal status and tenure management of the land parcel in the project site. In a GLD project, the roads are to be laid out along the furthest possible sides of the land parcels and not to cross the land, so that only a strip of land will be used for roads and utilities line. The basic concept for the plan is to make minimum disarrangement of the existing lay-out, but provide maximum benefit from the road frontage. Therefore in a GLD project only limited parcels are rearranged and thus not all landowners

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See Chapter V.

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in the project areas have to contribute their land. Whereas in a Land Consolidation project, every land parcel in the project is reduced an area to contribute land for roads and other public facilities (Archer, 1993).

In a GLD project the cost recovery for loan repayment is done through landowners' payment of cash instalment based on the benefit obtained by the landowners from the projects. Whereas in Land Consolidation project the repayment is through landowners' contribution of land. More over, a GLD project would not change the legal status of the land parcels in the project site as the legal tenure is not affected by the project, whereas in a Land Consolidation project the title of each land parcel will be reissued.

### **Housing Policy**

Separating land policy from housing policy when discussing residential land development is obviously rather dubious. Land is always the important input for residential development. Therefore, land policy affects housing policy and vice versa. This is particularly true for large-scale residential development such as in *Jabotabek* area where thousands of houses were built within 10 years only.<sup>44</sup> This part discusses the housing policy and how it affects the housing provision by private sector in Indonesia.

### ***Housing Development***

Unlike land policy, -particularly the planning and land ownership right, - formal housing policy in Indonesia was just started some 20 years ago with the birth of the National Housing Authority in 1974. This birth can be seen as the result of the more powerful advent of World Bank into the field of urban development around the 1970s. The works of John Turner on the self help housing<sup>45</sup> and the

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<sup>44</sup> See Chapter V.

<sup>45</sup> See for example his seminal paper in AIP Journal 1968 and his 'Housing by People' in 1976.

works of Otto Koenigsberger<sup>46</sup> in urban development planning have undoubtedly influenced the concepts for housing development globally, including the housing policy in Indonesia.

The first effort by the newly born Republic of Indonesia in housing field was perhaps the congress on 'Healthy Housing for the People' held in Jakarta on August 1950, five years after the proclamation of Independence. This congress was aimed at formulating feasible housing standard for Indonesia (Silas, 1995). The second effort, which has a significant result, was the *Kampung Improvement Programme* (KIP). *Kampung* improvement itself is however not new. In the Dutch colonial period, several (similar) attempts had been made by the colonial Government. A subsidy for *Kampung* improvement in Batavia was contemplated as early as 1907. After several others attempts, the culture of *Kampung* improvement is finally formalised in the *Kampong Verbeeteringsodornatie* 1934 (*Kampung* Improvement bye-law of 1934)

The first *Kampung* Improvement in the Independent era was the Muhammad Husni Thamrin (MHT) project initiated in Jakarta in 1968, aimed at upgrading the physical and social conditions of Jakarta's *Kampungs* through improvements in the physical conditions. This programme was then supported financially by the World Bank and by 1974, 2500 hectares of *Kampung* area had been improved. Since 1974 the programme has been extended to cover others cities. Over the years the concept of KIP has changed from a merely physical upgrading to include social and economic improvements.

It was not until the second Five-year Development Plan started in 1974 that the Government of Indonesia formalised its housing policy.<sup>47</sup> In 1974, following a

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<sup>46</sup> Particularly his work in Singapore which was published in *Architectural Association Journal* in May 1964.

<sup>47</sup> One of the reasons was the high economic growth experienced in those years. During 1971 to 1981 the Indonesian economy grew at an average rate of 7.7 per cent. In the second half of 1973 the international petroleum price quadrupled, conferring massive windfall revenue gain in Indonesia (Hill, 1996; Winters, 1991). The urbanisation rate also increased as an indirect effect of the economic

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National Housing Workshop, the Government created three important institutions to address housing problems systematically. These institutions are National Housing Authority (*Badan Kebijakan Perumahan Nasional*) which is responsible for formulating the overall housing policy; National Urban Development Corporation (*PERUM PERUMNAS*) which is responsible for providing houses, particularly for low-income people; and State Saving Bank (*BTN*) which was restructured to provide mortgage finance.

The creation of these institutions was a response to the ever-increased demand for housing particularly for low-income people. For the middle and high-income people, the private sector had already been starting to provide houses since 1971.<sup>48</sup> Private sector housing developers had also established an association in 1972 labelled REI (Real Estate Indonesia). A private mortgage institution, *PT Papan Sejahtera (PTPS)* was also established later in 1980 to serve the private sector housing development. To further co-ordinate the various agencies involved in housing production, the Ministry of Public Housing was created in 1977.

In Indonesia, where the total population has reached 195 million (BPS, 1998) those living in urban areas, in 1990, were 30.9 per cent of the total population (BPS, 1995). Almost 71 per cent of the urban population were those from the middle-low and low-income groups (with monthly income in 1988, Rp. 200,000) (Struyk, Hoffman and Katsura, 1990: 298). The urban population growth rate of 5.5 per cent per annum during 1980 to 1990 (BPS, 1995) is considered high. It accounts for about two-thirds of the total population growth from 1980 to 2000.

The serious implication of this trend is the need for living spaces, shelters, and other urban services. As the result of market forces, shelters have become scarce

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growth. Private sector development flourished due to the increased demand for offices and houses for the employees.

<sup>48</sup> See Chapter V for discussion on the private sector's involvement in housing provision.

and more expensive, particularly in inner city areas, resulting in the severe condition of urban poor area in the inner city. The work of Turner in Lima, Peru, and his famous book "Housing by People" (1976) had made Popular Housing Development become one of the accepted concepts for housing provision. This is what really has been happening in developing countries. In the case of Indonesia, the popular<sup>49</sup> housing provision had, on the one hand, covered over 80 per cent of all housing needs (Struyk, Hoffman and Katsura, 1990). The formal system, on the other hand, had covered only the remaining 20 per cent. This latter system, which is often heavily subsidised, - through subsidised low interest in mortgage system-, provides housing for the moderate to high-income people.

In the urban areas, the executed housing policies consist of three different parts. First, to improve and to maintain the existing settlements through *Kampung Improvement Programme*, mainly by improving the infrastructure. Secondly, to construct new houses, with the Government's funds mostly for low-income people, and private sectors funds mostly for middle and high-income people. For the low-income people, the Government has set up the *PERUMNAS*. In addition, a mortgage system was established in 1975. This system recognises *BTN* (The State Mortgage Bank) to be responsible for financing the house mortgage scheme for lower and middle-income people including financing the houses constructed by *PERUMNAS*. The third policy is called the urban renewal system. In this policy the Government demolishes deteriorated *Kampung* areas and constructs new dwelling units with the necessary infrastructure and facilities. This program has been implemented by *PERUMNAS* in some of their projects, with mortgage and construction loan from *BTN*. This policy was enforced by a Presidential Instruction No. 5 of 1990 regarding 'The Redevelopment of Squatter Settlements over Government Land'. This

<sup>49</sup> In Indonesia, the production of urban housing is largely done by popular and professional house builders. Popular housing is the one being developed by individuals without reliance upon either Government or formal private sector institutions, while the professional housing consists of houses created by private or Government owned companies (Struyk, Hoffman and Katsura, 1990). Formal housing development has to comply with certain building standards set up by the Government.

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Instruction stipulates that squatter settlements on Government land shall be redeveloped with no eviction. It is important to note that this instruction also recommends the private sector's participation as a possible financial source (Winarso, forthcoming).

Basically the Government of Indonesia has since 1974 adopted two policy tools to address housing shortages. First is the direct intervention by providing housing through development of new houses by *PERUMNAS*. Second is the indirect intervention by encouraging the people to build or upgrade their own houses through programmes like KIP, and mortgage finance by State Saving Bank (*BTN*) and the Housing Finance Corporation (*PTPS - PT Papan Sejahtera*). This latter strategy virtually had been ahead from what was known as 'enabling strategy' promoted by the World Bank in 1990 (UNHCS 1990).

Another indirect policy instrument to ensure the provision of low-income housing is by setting a requirement to have a ratio of 6 small houses and 3 medium houses for every large or luxury house built by a private developer, which is later became known as 1:3:6 ratio. The requirement was stipulated in the decree issued by the National Housing Authority on 12 September 1974. In 1992 the rule was further reinforced by an Inter-Ministerial Decree signed by the Minister of Public Works, Minister of Home Affairs and Minister of Public Housing. This Inter-Ministerial Decree stipulates that private developers who carry out land development on an area of 200 hectares or more, have to build houses in 1:3:6 ratio in their areas, whilst development of smaller than 200 hectares can develop the 6 portion in other areas, but in the same *Kabupaten*.

With this strategy the Government sets a target to build 500,000 to 600,000 simple houses units in the sixth five-year Development Plan starting in 1995. In practice, however, this strategy has never been smoothly implemented. The fact that the regulation needs to be reinforced in 1995 also shows the difficulty in implementing the regulation. Leaf's survey of newspaper clipping dating back

to 1975 indicates that REI Developers have long tried to resist this 1:3:6 requirement (Leaf, 1991: 183). One of the reasons stated by a developer was:

*"It is difficult to find land suitable for simple houses with the Government's fixed price..."* (Properti Indonesia, August 1995).

These two policies were effectively started in 1974 and theoretically could address all levels of income: KIP, Land Consolidation, Inner city redevelopment would provide housing for low-income level; *PERUMNAS* would provide housing for the low-middle income level. NGO and co-operation would provide housing for low and middle-income level; Private developer *BTN* would provide housing for middle-high income level and *REI/PTPS* would provide housing for the high-income level plus some for other levels.

### *Housing Finance*

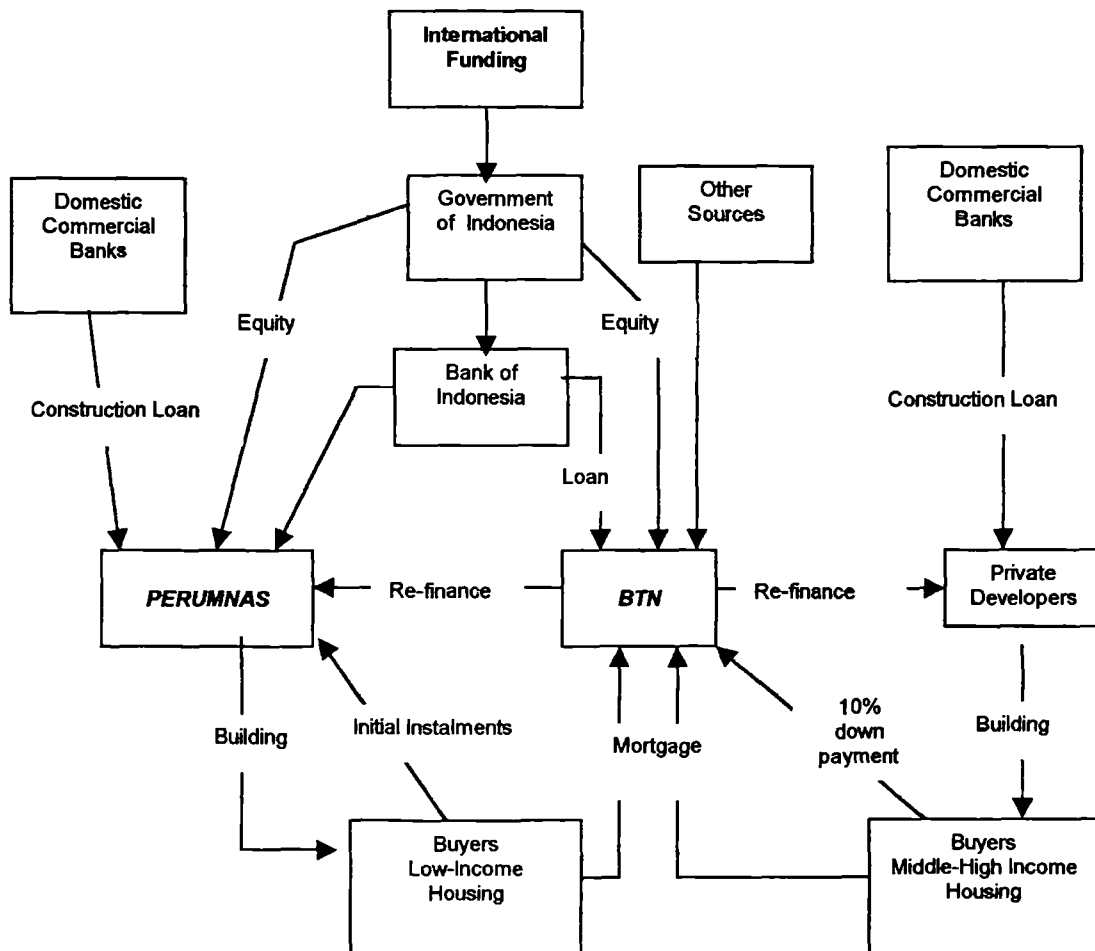
Housing finance in Indonesia, as reported by a study, is complex (Struyk, Hoffman and Katsura, 1990). It consists of informal and formal sectors, which are very rigidly present. The same study reveals that obtaining a loan to purchase a home is uncommon, only 9,1 per cent of homeowners in Indonesia have taken a homebuyer's loan from any source. From those who did obtain a loan, only about one third borrowed from formal financial institution, such as *BTN*.

Government's policy on housing finance is focused on the formal finance system, although it also encourages the informal system.<sup>50</sup> The formal housing finance is basically relied on the *BTN* and *PTPS*. These two banks enjoy Government's support to obtain funds below market price so that these banks can provide mortgage at a subsidised interest rate to encourage the people to buy house through a Housing Ownership Loan (*KPR – Kredit Pemilikan Rumah*) Scheme. With this scheme the Government gives financial assistance with subsidy component to house buyer to acquire house in a regularised and serviced

<sup>50</sup> The informal system is encouraged because this system obviously serves the majority of the homebuyers particularly the low-income people.

plot developed by *PERUMNAS* or private developers. *BTN* may finance up to 95 per cent of housing price, repayable within 5 to 20 years at subsidised interest rate lower than the market. The remaining 5 per cent is to be paid to *PERUMNAS* in instalments within 12 to 24 months without interest (Marcussen, 1990). Private developers who develop middle-high housing obtain short-term construction loan from commercial banks. Re-financing is done through *BTN* or *PTPS*. Buyers make down payment as equity at minimum 10 per cent of house price; the remaining 90 per cent is to be paid on mortgage at the subsidised interest rate (see Figure 4.5).

**Figure 4.5:**  
**Housing Finance for *PERUMNAS* and Private Developers**



Source: Adapted from Marcussen, 1990



The emergence of financial market in the 1980s developed further the housing finance in Indonesia especially for formal housing development for middle to high-income levels. The financial market provides funds needed by the private residential developers to finance their large residential projects.

### Conclusion

Land and housing policy in Indonesia has been experiencing several changes, from a colonial system which stressed the physical aspects to development planning which incorporates the economic and social aspects. The land and housing policy relies on planning regulations, particularly the use of statutory plans and development permits. Tools for land policy, particularly regulations concerning ownership rights, are still influenced by the legacy of the colonial Government. After the independence, the overall land policy is based on the concept that the Government controls the land and that land has social functions. The Basic Agrarian law combines the western and the *Adat* law to create basic land law in Indonesia.

The translation of the legal, normative land policy into workable policy instruments is still facing some problems. In the land regulations, the presence of the *Adat* law as one of policy instruments, is realised as one of the hurdles for urban land development. However, acknowledgement to *Adat* law is important for the continuity and certainty of ownership on land, which were not under western law. In the planning traditions, spatial planning act that consolidates the development planning tradition and the town planning tradition is largely ineffective, particularly to control large land development.

There are loopholes in the land and housing policy and regulations in Indonesia. The use of spatial plan for directing land development has been largely ineffective due to the weak enforcement and the possibility for private developers to influence the spatial plans. In the same fashion, the negative approaches to control land development have largely been inefficient. The 1:3:6

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policy, which actually is good, has never been successfully implemented. It is still ineffective and fails to direct formal housing development to provide low-cost housing. And the Location Permit, which is, arguably, a good tool, is open for abuse. The ineffective and inefficient implementation of the policy instruments have increased the cost of land development which in turn affects the price of housing and the provision of housing for the poor.

The policy for housing finance, in the advent of economic development, has encouraged the construction of housing by formal private developers and has enabled the developers to provide housing for the middle and high-income segment of the people.

## **Chapter V**

### ***Jabotabek Area: The Restructuring of Space and The Emergence of Private Developers***

#### **Introduction**

The rapid growth of urban population in Third World cities has obvious implication not only on the provision of basic infrastructure but also on land development. In most cities the growth of population has made the physical development spill over onto the surrounding areas, converting agricultural land into urban land and creating huge “mega-cities”. It is reported that in 1990 around 42 per cent of the Third World’s total urban population live in informal settlements, many of them are located on urban fringes (World Resource Institute 1990 as quoted by Browder, Bohland and Scarpaci, 1995), but many urban residents live in settlements created by formal land developers on urban fringes. This is particularly visible in the cities of countries which enjoyed massive economic growth, such as Bangkok (Foo, 1992a, 1992b; Dowall, 1991). Land development activities, which essentially are the heart of the space restructuring process, are not isolated from Government’s policies, particularly those related to financial activity and land regulation (see for example: Dowall, 1991; Lasserre, Farvaque and McAuslan, 1991; Baken and Van der Linden, 1993).

This chapter aims at providing a picture of the development process in the *Jabotabek* region. First, it briefly traces the growth of Jakarta from the early 1600s until 1945. Second, it explains the urbanisation and reconstruction process of 1966 to 1969, which marked one of the important phases in the growth of the region. Third, it describes the emergence of private sector land developers whose activities have significantly affected the recent restructuring process and, lastly, it assesses the recent real estate boom arguing that there are significant problems which might arise from the activities of the private developers in the region. A conclusion is drawn at the end of this chapter.

## Historical View

### *The Origin of the Jabotabek Region*

It was not until the 1970s that *Jabotabek*<sup>1</sup> earned its name, underlining the cycle of restructuring by means of which the tiny city of Jayakarta experienced one of the most astonishing periods of city growth in the Third World. This cycle was supported by foreign investments in the area as spurred by Government's policy.<sup>2</sup> This was followed by an oil boom<sup>3</sup> which encouraged the development of infrastructure and laid down the basic shape of the *Jabotabek* of today.

Jakarta, the core city of *Jabotabek* region which originally was called Sunda Kelapa, was founded in the 1300s as a small trading port at the sanctuary of Ciliwung river. After the triumph over the Portuguese in 1527 by the Sundanese ruler, Sunda Kelapa was named Jayakarta which means 'the victory'. By the early 1600s the city had fallen into the hands of the Dutch and was then administered by the VOC, *Vereenigde Oost Indische Compagnie* (The United East Indies Company) after its founding in 1602. Jayakarta was renamed Batavia in 1618, and was expanded as one of the VOC base ports in Indonesia before eventually becoming one of the East Indian headquarters. Batavia was surrounded by jungle; the only way to connect with the outside world was by the sea. In the beginning of the 1680s the people of Batavia were largely slaves, Chinese traders, and labourers (Blusse, 1981). By 1799, the VOC possession of Batavia was transferred to the Dutch Crown, and this marked the beginning of the colonisation of the country. The administration of the country by the Dutch Colonial Government brought many changes to the social, economic, political

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<sup>1</sup> See footnote 3 Chapter I.

<sup>2</sup> In 1973, the Government of Indonesia experienced a massive windfall of revenue from oil. The real GDP increased at an annual average rate of 7.7 per cent. An Investment Co-ordinating Board was set up in this year (see Hill, 1996).

<sup>3</sup> The oil boom (for oil-exporting countries) was triggered by the hostilities that broke out between Israel, Egypt and Syria at the end of 1973. This event had pushed the oil price from \$3 per barrel to over \$5 per barrel within one month, and by three months the crude oil price had reached \$12 per barrel. This oil boom eventually had enormous impacts on total Government revenue (Winters, 1991).

and physical structures, particularly by the exploitation of what was called as *cultuurstelsel*,<sup>4</sup> a Culture System policy.

The first cycle of 'formal' space restructuring process noted was perhaps the development of a new residential area for the European communities in about five kilometres inland in the southern part of old Batavia, which was ordered by William Daendels, the first Governor General of the Colonial Government, in 1808 (Suryomiharjo, 1977). The restructuring was needed to fit with the changing function of the city. Batavia had become the centre of a colonial system whose main role was to administer the appropriation of agricultural surpluses.

The first cycle of restructuring was taken further by the Land Transfer Ordinance in 1834. In Batavia, land mostly owned by the VOC as the feudal master were converted to Crown Land, while certain areas under the Colonial Government management were registered under Western Land Law. In 1870 a series of reforms were introduced and one of them was the Agrarian Wet or Agrarian Law. This law allowed the sale of leased land to non-Indonesian landlords (Leaf, 1991).

The population at that time was very small. According to Taylor, as quoted by Marcussen (1990), in 1811 Batavia's population consisted of 552 Europeans and another 1,455 persons legally recognised as Europeans. Other Asian citizens were only 45,000. However, over the next century Batavia had then grown into a city with a population of around 500,000. Inter-city rail lines had connected Batavia with Tangerang in the West, Serpong and the Sunda straits in the Southwest, Bogor and Bandung in the South and Bekasi and Cirebon in the East. The Europeans living in Batavia enjoyed the European quarter at Menteng,

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<sup>4</sup> *Cultuurstelsel* was a system enforced by the Dutch colonial Government to exploit the native peasants. This system required peasants to grow export crops on a certain percentage of their land or, alternatively, to work for a number of days annually on state plantations or other state projects (Marcussen, 1990).

while the native local people lived in the surrounding *Kampungs* and in the traditional villages.<sup>5</sup> By then, the expansion of Batavia had started and the demand for land for residential purposes was apparent as Karsten<sup>6</sup> noted:

*"The rapid expansion of the Town naturally led the Europeans to buy more and more land, preferably along the existing highways. This was to large extent not farm and nature land... but land where there already were Kampungs."* (in Wertheim, 1958).

During the Japanese occupation (1942-1945) a plan for a new satellite town in Kebayoran at the Southwest of Batavia was completed by the last remaining Dutch Administration. The new satellite town was designed to accommodate 100.000 inhabitants in an area of 730 hectares. The development, however, was abandoned because of the Second World War.

The end of the Second World War and the birth of the new Government brought changes to the social and physical structures of the city. The new independent Government under President Sukarno struggled to maintain the young Republic and at the same time tried to establish a place in the world. In 1950 when the Republic of Indonesia had been fully recognised internationally, Batavia was renamed Jakarta and was maintained as the capital of the new nation.

The agenda for urban development stressed city beautification in keeping with the idea that the capital of a nation is a reflection of the country and therefore must express the power and centrality of the state. In the 1950s, with the aim of making Indonesia and Jakarta the centre of the *New Emerging Forces* of the world, a Central Business District (CBD) was constructed around the main square close to the presidential palace, including a National Monument in the

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<sup>5</sup> This basic form, the European mansions surrounded by *Kampungs*, has been pictured as the reflection of urban socio-economic dualism of the city, a concept which simultaneously contradicts. Leaf articles addressed the subject quite nicely (see for example Leaf, 1993).

<sup>6</sup> Ir. Thomas Karsten was the architect of the first Indonesian Town Planning Act and the principal planner for several Indonesian cities including Batavia.

square. The CBD and the square were designed in the manner of an *agora* with a network of freeways to the Southwest connecting the central square to *Kebayoran Baru*. Along the road high rise buildings and the huge complex for the Asian Games were later constructed.

Between 1945 and 1965, Indonesia experienced a transformation from a society under colonialism to that of a free nation. This transformation was not an easy process. The economy of the country experienced only modest progress in the early years of independence and it became a nightmare at the beginning of 1960s, and so did the social conditions. The year 1965 saw the collapse of the Sukarno Government. Prior to this, the foreign and domestic investment had decreased because of the anti capitalist policy of Sukarno. The threatening economic and social conditions can perhaps be pictured by Castle's word:

*"In spite of official reiteration of the goal of a just, prosperous society, the impression of many observers has been that along with a decline in per capita income, the contrast between rich and poor has actually sharpened. Real wages have fallen heavily. Yet the scale of conspicuous consumption in Djakarta seems to have grown ... the sharp increase in the number of passenger cars, at a time when public transport is deteriorating seriously, gives some indication (of the gap)..."* (Castles 1965, as quoted by Hill, 1996:2).

These socio-economic conditions were reflected in the development of Jakarta. The first Master Plan for Jakarta prepared in 1952, which envisaged an urban area with a ring road as the limit and surrounded by a green belt following the principles of Ebenezer Howard's Garden city, had never been actualised. At that time the population had already reached 1.5 million, more than doubled of that in 1945. By the year 1961, Jakarta's population had reached 2.9 million, which made Jakarta one of the largest cities in the world. Most of its populations lived in dense *Kampung* areas with bad infrastructure conditions. Public transportation systems were largely neglected.

The next 35 years witnessed rapid growth and structural change in the city. As the economy grew, Jakarta emerged as the centre for the development of the country. And thus, it can be seen that the processes of urban restructuring and of the emergence of the formal private residential developers were in conjunction with this economic development. To illustrate this, this analysis will use the episodes of Indonesian economic development as constructed by Hill (1996)<sup>7</sup> and the periods of investor mobility as developed by Winters (1991)<sup>8</sup>.

The events of the spatial restructuring process may be divided into three periods. The first is the urbanisation and reconstruction, which occurred during 1966 to 1969. The second is the emergence of private developers, which occurred during the 1970s and 1980s. The last period is the real estate boom, which influenced the recent space restructuring of *Jabotabek* area.

### ***Urbanisation and Spatial Reconstruction, 1966 to 1969***

The urbanisation process in Jakarta was not isolated from the economy, which was growing considerably fast. Over this period, which Hill (1996) labelled as period of “Rehabilitation and Recovery”, the economy grew at an average of 6.6 per cent per year. The Government policy to re-establish ties with the international donor community and to control inflation had resulted in a positive response from both foreign and domestic investors. Foreign and domestic investments grew rapidly and, as noted by Douglass (1991), were concentrated

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<sup>7</sup> Hill (1996) in his comprehensive book on the Indonesian Economy since 1966 divided the economic policy in Indonesia into four episodes: 1. *Rehabilitation and recovery, 1966-1970*. Over this period the main concern of the Government was to control the inflation rate and resume its market for foreign investment; 2. *Rapid Growth, 1971-1981*. This was the period when Indonesia achieved sustained economic growth and experienced a real increase of GDP at an annual average of 7.7 per cent which was partly due to of the oil boom in 1972; 3. *Adjustment to Lower Oil Prices, 1982-1986*. This was the period of decline of economic growth to about 4 per cent annually. The revenue of oil was not substantial. The Government introduced some policies on banking and taxation, it also devalued the Rupiah to overcome the problem; 4. *Liberalisation and Recovery, 1987 to the present(1996)*. This is the period when Indonesia became a significant industrial exporter.

<sup>8</sup> In his interesting dissertation on the political economy in Indonesia, Winters looked at the structure of power and investor mobility between 1965-1990 in three different periods. He put them under the headings: *The Pre-Boom Year 1965-1974: Investor Confidence and Political Contradiction; The Oil Boom 1974-1982: Structural Leverage and State Indifference, and The Capital's Power Restored 1982 - 1990*.



in Jakarta. Also noticeable in Jakarta was the development of services by international hotels, banking and the expansion of civil services. Physical infrastructure systems were also rehabilitated, road transport capacity was expanded and a growing number of inexpensive commercial vehicles contributed to the growing mobility of the population in the country.

This period saw massive population growth in the capital city and a response from the city Government to deal with the problems caused. From 1961 to 1971, Jakarta's urban population had almost doubled, from 2.9 million to 4.6 million with an annual growth rate of 5.8 per cent. This was the fastest urban population growth in the country and the fastest in Jakarta's history (see Table 5.1).

**Table 5.1:**  
**Population in Jabotabek (x 1000)**

Region	Population				Annual growth %		
	1961	1971	1980	1990	61-71	71-80	80-90
Jakarta	2905	4579	6503	8254	5.8	4.7	3.0
Bogor	1303	1662	2494	3736	2.8	5.6	5.5
Bogor Municipality	146	196	247	272	3.4	2.9	1.1
Tangerang	848	1067	1529	2765	2.6	4.8	9.0
Bekasi	690	831	1144	2104	2.0	4.2	9.3
<i>Botabek</i>	2987	3756	5414	8877	2.6	4.9	7.1
<b>JABOTABEK</b>	<b>5892</b>	<b>8335</b>	<b>11917</b>	<b>17131</b>	<b>4.1</b>	<b>4.8</b>	<b>4.9</b>

Note : *Botabek* is the summation of Bogor, Tangerang and Bekasi

Source : Calculated from data presented by the Indonesian Team (1995)

The vast majority of the migrant population was concentrated in *Kampung* areas close to the available jobs. The population growth had certainly created problems of housing. A survey in 1969 revealed that 65 per cent of all houses had no private toilet facilities, 80 per cent had no electricity, and 90 per cent had no piped water (Sivaramakrisnan and Green, 1986:196-197). To deal with the water supply shortages and the deteriorated physical infrastructure, the Jakarta Government developed a programme called M.H. Thamrin Project which was then known as *Kampung* Improvement Programme. To counter the deteriorated conditions of *Kampung* areas, the programme was designed to improve

pathways, drainage, and health and school facilities. This has been recognised widely as a successful low-income settlements upgrading programme (Farvaque and McAuslan, 1991). In the early 1974, the programme was formally acknowledged and supported financially by the World Bank. However, the upgrading programme was not the answer to the problems created by land use changes, which began to emerge as the result of the increasing foreign investment in the city. Furthermore, it became obvious that, combined with the industrialisation process in the region, the urbanisation was expanding beyond the administrative boundaries to include the adjoining *Kabupatens*. Thus in 1967 the second Master Plan, for the period of 1965 - 1985, was introduced to deal with the massive new development in the area.

During this period *Kebayoran Baru* had arisen as an area for middle and high-income residence in Jakarta. This was followed by several other residential development, but the most prominent was in *Slipi*, which marked the first housing area in Indonesia developed by a real estate company. It was created by a Government's owned company PT (*Perseroan Terbatas* means Limited Company) Pembangunan Jaya under the chairmanship of Ir. Ciputra<sup>9</sup> (*Properti Indonesia*, February 1994: 10). The first residential premise built by a foreign company in this period was perhaps Pertamina's<sup>10</sup> housing complex which was developed by *Tosho Sangyo*, a Japanese company in the late 1960s (*Properti Indonesia*, February 1994: 16).

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<sup>9</sup> Ciputra became the most prominent person in land development in Indonesia. He was the president of the International Real Estate Federation (FIABCI), and owns several of the largest real estate companies in Indonesia.

<sup>10</sup> Pertamina is the only state Oil Company which had an important role during the first decade of the Suharto's administration. According to Winters (1991), Ibnu Sutowo, the president of the company, acted as the president's political financier. In an interview with Winters, Sutowo is reported to have said that: "You can't find a single road or school or hospital that wasn't at least partly funded by the money I borrowed through Pertamina". Winters dissertation on the political economy in Indonesia gave a good picture of the role of Pertamina at that time.

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*The Emergence of Private Developers and the Development of Jabotabek, 1970 and 1980s*

In an effort to control the in-migration, in 1971, Ali Sadikin, the then Jakarta Governor, introduced a closed city policy. Under this policy, migrants had to have a certificate which showed that they had been properly enrolled in a school, or indicated that job was available for them. Despite this policy, the urbanisation process, propelled by the fast economic growth, remained substantial, and thus created a strong demand for urban land.

In the early 1970s a new cycle in the restructuring process was started by the institutionalisation of housing production and the involvement of the formal private sector in residential development to accommodate the ever increasing demand for housing. The economic condition, which was pictured as a “sustained economic growth” by Hill (1996) brought a new era in the physical development of Jakarta and later in the *Jabotabek* area. The average economic growth of 7.7 per annum had impacts on the development of the formal private sector. The growing need for offices combined with a Government policy to develop commercial areas encouraged the participation of the private sector. The first private sector’s involvement in commercial property development was perhaps by P.T. Metropolitan Development, founded by Ir. Ciputra in 1971 (*Properti* Indonesia, February 1994:10), which constructed several office buildings in Jakarta.

Almost at the same time, Ciputra, together with the wealthy Indonesian Lim Sioe Liong,<sup>11</sup> established a company named PT Metropolitan Kencana and transformed 720 hectares of rubber plantation at the south of *Kebayoran Baru* into a residential area, named Pondok Indah. This area became the first large planned residential area for middle and high-income in Indonesia, which was

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<sup>11</sup> For the discussion on the emergence of large and dynamic private sector in Indonesia, see for example Hill (1996). Hill’s book also provides a list of 25 major business conglomerates in Indonesia in which he put Lim Sioe Liong at the first rank.

created by a private developer. Its success caused land prices in the area to soar and made Pondok Indah one of the exclusive areas in Jakarta. Today houses of 500 square meters size in the area are marketed at the price of around one billion Rupiah (appr. US \$ 400,000<sup>12</sup>) (*Properti Indonesia*, November 1994: 96) while in 1975, when the project started, the same type of houses were offered at below one hundred million Rupiah (appr. US \$ 4,000). Following Ciputra, several other small and large real estate developers began to emerge. One of them was PT Harapan Indah, which later in 1990 was renamed PT Dharmala Inti Land and became one of the biggest land developers in Indonesia. On the 11th of February 1972, to further strengthen their lobbying power, private developers established an association called Real Estate Indonesia (REI), the industry's official trade organisation with Ir. Ciputra as the first President. At the beginning only 33 developers were registered as members (REI, 1997).

This period also witnessed the birth of the Public Housing Authority in Indonesia. Following a National Conference on National Housing in 1973, the National Housing Authority was established with the main responsibility to formulate the overall housing policy. In the same year, the National Housing Development Corporation (*PERUMNAS*) was set up to provide housing, primarily for low-income people. To support the policy, a financial institution which could provide mortgage finance was founded. This was the State Saving Bank (*BTN*), created to provide mortgages for low and middle-income groups. Later in 1980, the Housing Finance Corporation (*PT. Papan Sejahtera*) was also established to serve the higher income groups.<sup>13</sup>

One of the first large projects undertaken by the National Housing Development Corporation (*PERUMNAS*) was the low-income housing in Depok in an area of

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<sup>12</sup> The Rupiah value has been falling down after the monetary crisis in Indonesia in 1997. The value was down from approximately 2,000 Rupiah per US\$ 1 in 1995 to approximately 10,000 Rupiah per 1 US\$ in May 1998. Analyses in this dissertation uses Rp 2,500 for the US\$ 1 equivalent.

<sup>13</sup> See discussion of housing policy in Chapter IV.

more than 400 hectares (Silas, 1995). The area is located in *Kabupaten* Bogor at just about the southern administrative boundary of Jakarta. This then became part of Jakarta and grew to be an important centre of development in south Jakarta, following the relocation of a substantial portion of University of Indonesia from the city centre to Depok (Douglass, 1991). Together with the completion of a toll road to Bogor, the development in this area had increased land prices up to 75 per cent within two years (*Properti Indonesia*: February 1994: 101).

The restructuring process occurred not only in Jakarta but also spilled over into adjoining *Kabupatens* as the demand for urban land for housing increased, to match the ever expanding population of Jakarta. In the early 1970s it was realised that the Master Plan of Jakarta of 1965 was not viable anymore, and thus a new concept labelled the *Jabotabek* Development Plan which incorporated the development of the surrounding *Kabupatens* was introduced in 1974 following a report by the Dutch team working for the Ministry of Public Works.<sup>14</sup> By 1980, the population of *Jabotabek* area had reached 11.9 million, which made Jakarta the largest metropolis in Southeast Asia. According to Douglass (1991), in 1979 Jakarta and its surrounding areas accounted for 42 per cent of the total value added and two third of total employment in medium and large-scale manufacturing in Indonesia. By that time the physical development had reached as far as 20 km from the city centre.

At the beginning of 1980s, following the construction of toll roads which connect Jakarta to Tangerang and Merak in the West, and to Bekasi and Bandung in the East, a new trend of residential land development emerged. It undoubtedly marked one of the important steps in the space restructuring of the

<sup>14</sup> The *Jabotabek* Plan was initially developed with the assistance of the Dutch Government in 1970. The planning concept was inspired by the model of "*Ransstad*" in the Netherlands (Giebels, 1986). The concept includes self contained growth centre. Basically two main models were introduced. One was a concentric model and the other was a linear model. Since then, the plan has been reviewed three times, however there has been no significant alteration to the basic concept, except for the prediction of population growth. The last review conducted in 1992 re-stressed the proposed development along an east-west and a north-south axis. The plan, however, is not legally binding.

*Jabotabek* area. The trend was the development of new towns, pioneered by Ciputra and 10 other large companies. Together they launched the idea of a new town in Serpong which is located at about 20 km south-west of Jakarta. The proposal was surprisingly unchallenged, despite the fact that it did not conform with the *Jabotabek* Metropolitan Development Plan of 1980 nor with the West Java Urban Development Project (WJUDP) finished in 1985.<sup>15</sup>

**Table 5.2:**  
**Housing Units Built by PERUMNAS and by Private Firms in *Jabotabek***

Year	1987*	1988	1989	1990	1991**	1992	1993	Average/year
<b>PERUMNAS</b>								
Jakarta	103	4	0	NA	200	2230	0	362
Bogor	885	85	220	NA	212	442	57	271
Tangerang	365	7578	1218	NA	2016	2075	1872	2160
Bekasi	5221	2342	128	NA	549	2349	692	1611
<b>Botabek</b>	<b>6471</b>	<b>10005</b>	<b>1566</b>	<b>NA</b>	<b>2777</b>	<b>4866</b>	<b>2621</b>	<b>4043</b>
<b>Jabotabek</b>	<b>6574</b>	<b>10009</b>	<b>1566</b>	<b>NA</b>	<b>2977</b>	<b>7096</b>	<b>2621</b>	<b>4406</b>
<b>Priv. Firms</b>								
Jakarta	513	0	515	147	1	0	72	178
Bogor	4338	5432	6600	3973	2828	2797	1759	3961
Tangerang	11709	15887	18353	9656	7996	4485	1194	9897
Bekasi	15819	14756	17788	14271	13526	7022	2434	12230
<b>Botabek</b>	<b>31866</b>	<b>36075</b>	<b>42741</b>	<b>27900</b>	<b>24350</b>	<b>14304</b>	<b>5387</b>	<b>26089</b>
<b>Jabotabek</b>	<b>32379</b>	<b>36075</b>	<b>43256</b>	<b>28047</b>	<b>24351</b>	<b>14304</b>	<b>5459</b>	<b>26267.3</b>

Note : \* Figures for housing built by PERUMNAS in this year are cumulative from 1985

      \*\* Figures for housing built by PERUMNAS in this year are cumulative from 1990

      All the figures are for housing financed by KPR-BTN (State Mortgage Bank)

Source : Calculated from BPS data presented in Indonesian Team (1995)

Bumi Serpong Damai (BSD), the new town, was designed to house 600,000 people by the year 2005 in an area of 6,000 hectares. This was then followed by other new towns scattered throughout *Kabupaten* Tangerang, Bekasi and Bogor. Thus, by the end of the 1980s more than 10 new towns of 500 hectares or more were recorded in the area (*Properti* Indonesia, June 1995: 28). This concept of a new town is more comparable to the US experience rather than British new

<sup>15</sup> The first *Jabotabek* Plan was silent on the development of the Serpong area, while the West Java Urban Development Project, financed by the World Bank, which had finished its final report in 1985, only predicted that at best Serpong would be developed as a large-scale dormitory area for middle to high-income commuters with only limited local employment and a narrow cross-section of income groups (Douglass, 1991: 227).

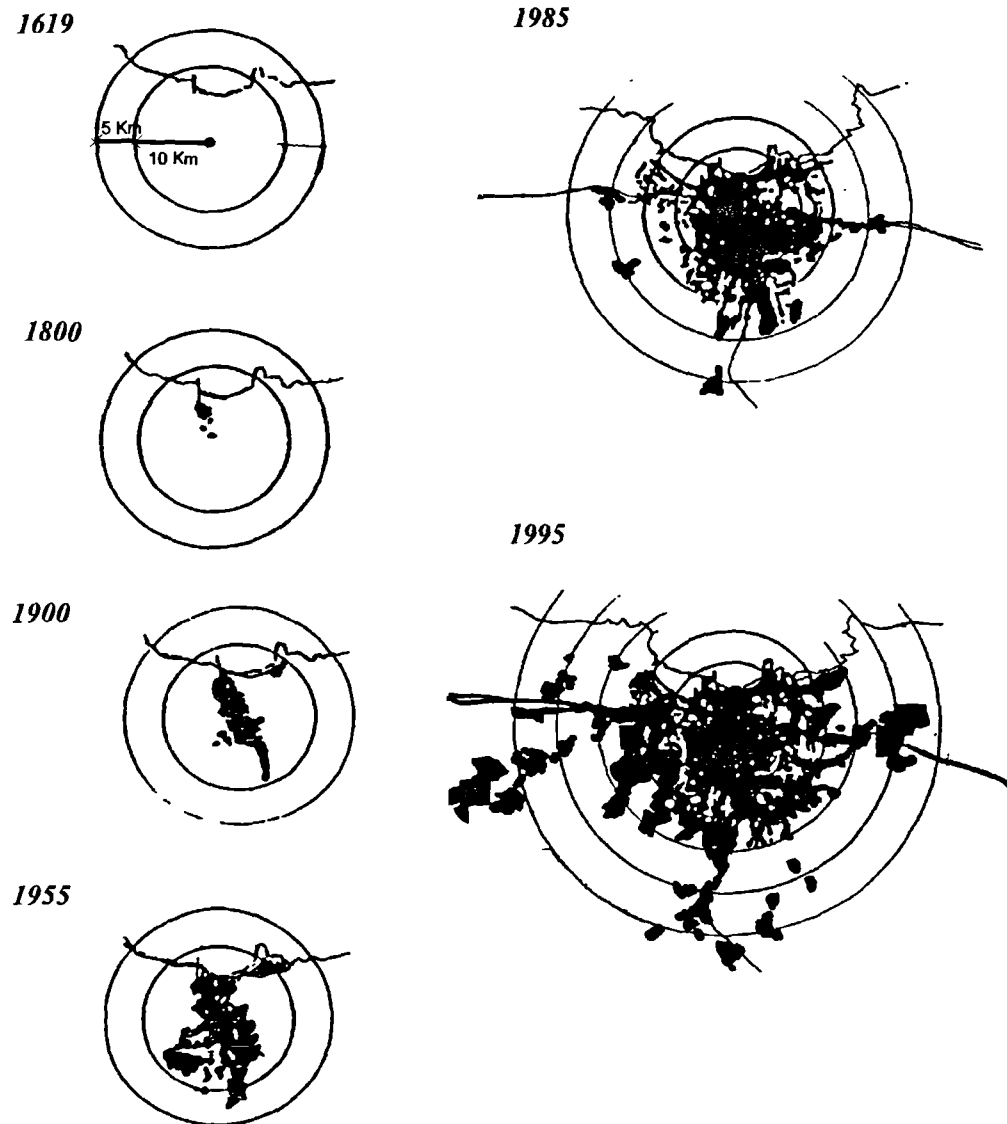
towns in the sense that the idea, site selection and implementation of the new town are undertaken by private developers.<sup>16</sup>

The construction of new towns has increased the production of formal housing by private developers. As illustrated in Table 2, by 1987 the number of housing which was built by the private sector had significantly exceeded that which was built by *PERUMNAS*. These figures clearly show the essential role of private developers in providing formal housing in the region. Thus by the end of the 1980s the penetration of development into former agriculture farm land was obvious, first at the periphery of the city and then jumped deeply into the areas beyond as far as 30 to 45 km from Jakarta.

The immensity of construction can be seen in the change of agricultural land into built-up areas. According to a recent study (Indonesian Team, 1995), in 1971, the built-up area of Jakarta, the core-city of *Jabotabek*, had reached 17,878 hectares or 31 per cent of its area. This was almost doubled in 1988 for at that time the built-up area covered 61 per cent of the city (39,734 hectares). The study also revealed that the built-up areas of Jakarta have spilled over into the immediate *Kabupatens*. Built-up areas in *Kabupaten* Tangerang had increased from 14,033 hectares (corresponded to 11 per cent of the *Kabupaten* area) in 1980 to 44,214 hectares (corresponded to 34 per cent of the *Kabupaten* area) in 1992. The same situation also occurred in *Kabupaten* Bekasi and *Kabupaten* Bogor. The constructed area in *Kabupaten* Bogor increased from 33,150 hectares (15 per cent of the *Kabupaten* area) in 1974 to 64,782 hectares (34 per cent of the *Kabupaten* Area) in 1994, while in *Kabupaten* Bekasi it increased from 14,310 hectares (10 per cent of the *Kabupaten* area) in 1980 to 27,378 hectares (18 per cent of the *Kabupaten* area) in 1993. Figures 1; 2; and 3 show these growths of Jakarta and the locations of the new towns.

<sup>16</sup> Corden (1977) comparing the new towns development in the US and Britain, noted that a basic difference is the initiator. In Britain the role of the Government is strong, while in America private developers are the engines of new towns construction.

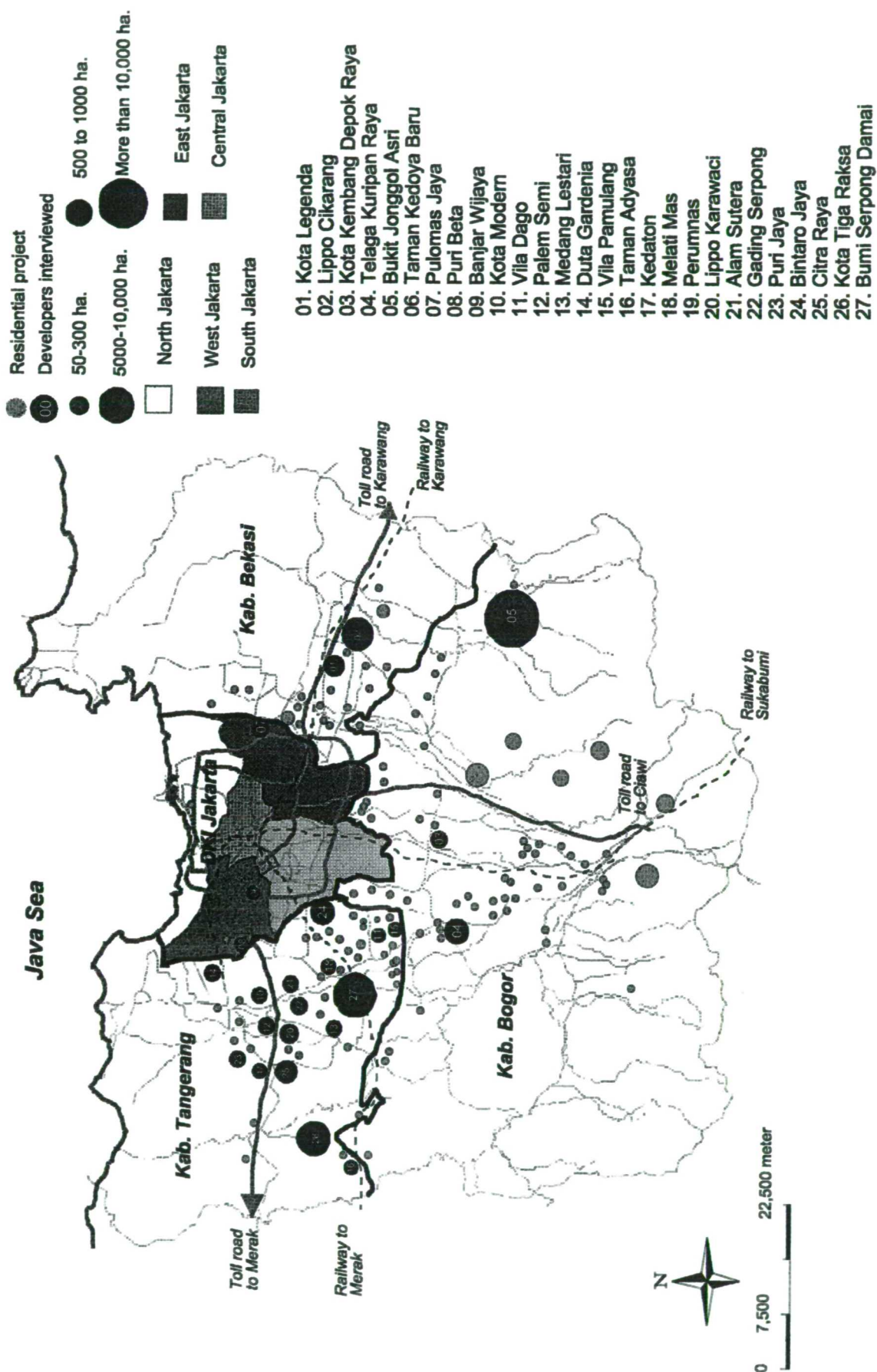
**Figure 5.2:**  
**The Growth of Jakarta and *Jabotabek***



Adapted from: Rencana Umum Tata Ruang Jakarta 2005



**Figure 5.3:**  
**Map of Jabotabek and the Location of Residential Development**



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### The Real Estate Boom and Space Restructuring, 1985 – 1997

Within the period from 1982 to 1986, Indonesia's economy was pictured as puzzling as this quote may show:

*"The macro indicators are encouraging... Yet investment is sluggish, the deep-seated problems of protection and regulation and of indifferent performance of the large state enterprise sector remain, and some of the Government's recent industrial policy initiatives appear to be very costly... The paradox is resolved partly when it is remembered that rice and oil are still crucial. A good performance in these two sectors can gloss over problems elsewhere..."* (Hill, 1996).

The economy continued to grow at an average of 4 per cent per year. Hill (1996) labelled this period as "Adjustment to lower oil prices". But from 1987 into the 1990s the economic conditions changed, and the economy grew at an average of 6.7 per cent annually.

*"The Indonesian economy has been experiencing something near boom conditions in most sectors throughout 1989... Anticipated benefits from the various deregulation packages of 1986 - 1988... are now obvious. Exports of manufactured goods are continuing to rise to unprecedented levels, the banking system is awash with liquidity, the 1989 rice harvests have been exceptionally good, while the construction industry is now operating at near-capacity levels."* (Jamie Mackie and Syahrir as quoted by Hill: 1996)

This new cycle of change actually began with a series of deregulation policies during the years 1983 -1988.<sup>17</sup> The policies were aimed at improving domestic savings, improving resource allocations and developing a framework for monetary management in particular through indirect intervention rather than direct regulatory control (Hill, 1996). The most important deregulation policy was perhaps the 1988 financial, monetary, and banking reform<sup>18</sup>. This was

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<sup>17</sup> Winters (1991) dissertation provides a good account in this series of deregulation. He put it under "Jaman Deregulasi" in which he analysed the dynamic power involved in the deregulation. More detailed analyses of the reform can be seen in Hill (1996) and Booth (1992).

<sup>18</sup> The package was aimed to increase economic growth, non-oil export and to expand job opportunities. This deregulation was also aimed to encourage mobilisation of funds, efficiency of banks and non-banks institutions, and to develop capital markets (Winters, 1991).

particularly true for the development of real estate industries. As the Government, by then, allowed the entry of more foreign banks in the form of joint ventures, the private banks were able to offer genuine competition (Hill, 1996:36). The result of the policy was that banking system expanded and was awash with liquidity that needs to be tapped. Private banks started to offer a wide range of products including attractive term deposit rates. Hill (1996) noted that between March 1989 to June 1993, the number of private banks' branches were almost doubled, while the state bank in the same period only expanded 24 per cent.

Meanwhile, the Government policy to subsidise the State Mortgage Bank (*BTN*) and *Bank Papan Sejahtera* in order to keep their housing loan interest rates low has increased the number of lenders as well as the value of the loans as can be seen in Table 5.3. According to Struyk, Hoffman and Katsura (1990:171), in April 1989 *BTN*'s interest rates for mortgage credit were 9 to 15 per cent and they averaged half that of the commercial banks which was at 24 per cent.

**Table 5.3:**  
**Realisation of Housing Loan by Bank Papan Sejahtera**  
**in Indonesia (x 1,000,000 Rupiah) in Indonesia**

Year	Lender	Value/Rp.
80	5	4.4
81	184	181.7
82	376	423.1
83	649	917.2
84	1034	1684.6
85	535	931.8
86	1474	2442.7
87	4195	6342.7

Year	Lender	Value/Rp.
88	4853	7445.9
89	4373	7072.1
90	4194	7267
91	3101	6435.5
92	1608	3853.4
93	2849	8006.9
94*	5525	9699.9

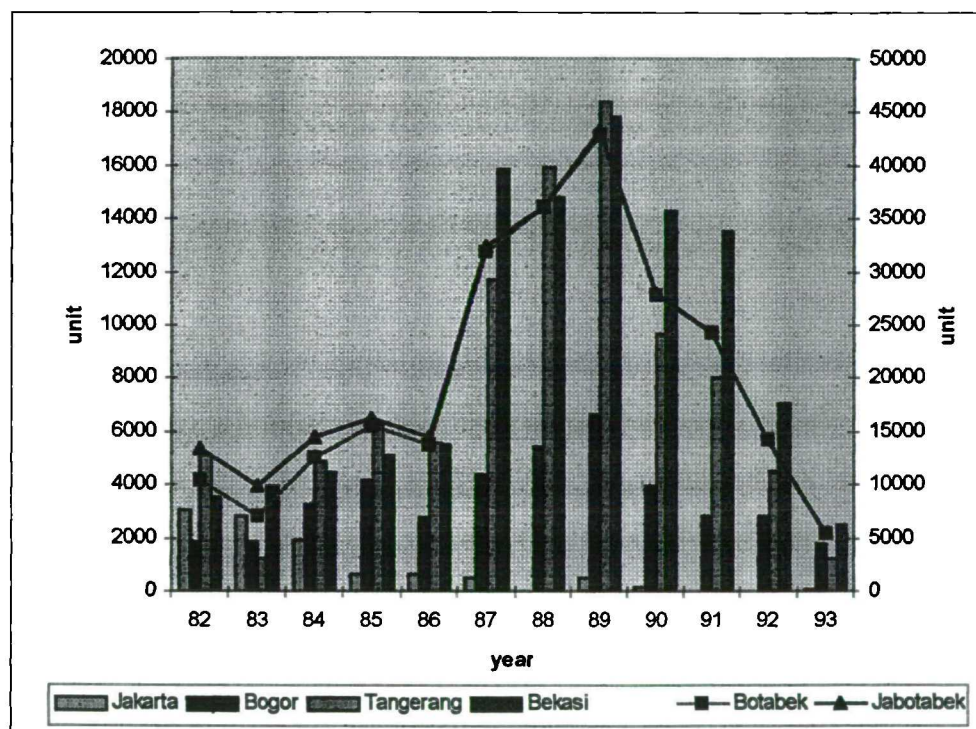
Note : \* 1994 is estimated figure

Source : *Data Bidang Perumahan dan Permukiman* (Housing and Settlements Data), Ministry of Public Housing, April 1994: 42

Thus between 1987 and 1989, the *Jabotabek* region saw the first boom in the real estate industry, as can be seen in the Figure 5.4. Within three years, more than 111 thousand houses were produced by private developers. Adding it with

the houses built by *PERUMNAS*, the Property Magazine reported that more than 160 thousand units were sold within a year (*Properti Indonesia*, November 1994, pp. 24). The realisation of housing loan by *BTN* and Bank Papan Sejahtera shows the boom of housing construction in Indonesia (Figure 5.8). The first boom reached its peak in 1989.

**Figure 5.4:**  
**Realisation of Housing Construction Financed by KPR-BTN in Jabotabek 1982 -1993**



**Note** : *BTN (Bank Tabungan Negara)* = State Mortgage Bank  
*KPR (Kredit Pemilikan Rumah)* = Housing Loan

**Source** : Calculated from Housing Construction Statistic in Indonesia

The series of economic reform policies stimulated Indonesia's industrialisation progress and generated employment (Chia as quoted by Firman, 1995: 204). However this progress was spatially unbalanced, being mainly concentrated in *Jabotabek* region. Jakarta and west Java alone, in 1990, contributed one third of the nation's non-oil GDP (Hill, 1996: 226). The agglomeration of economies in the region increased the demand for urban land as shown by the land use changes during 1990 - 1994 (Table 5. 4).

**Table 5.4:**  
**Land Use Change in the Botabek Area (in hectare) 1980-1994**

Land Use	1980	1994	increase	%	decrease	%
Village	70794	118842	48048	68	—	—
Wet Rice Field	246805	213594	—	—	-33211	13
Dry Agricultural Field	31719	33516	1797	6	—	—
Mixture Garden	125880	114314	—	—	-11566	9
Plantation	44185	28277	—	—	-15908	36
Forest	74117	69201	—	—	-4916	7
Underbrush, meadow	6485	5582	—	—	-903	14
Embankment	16225	18700	2475	15	—	—
Lake, Marsh	860	860	—	—	—	—
Infertile land	90	1600	1510	1678	—	—
Others	3530	15404	11874	336	—	—
<b>Total*</b>	<b>617160</b>	<b>619890</b>	<b>65704</b>	<b>11</b>	<b>-66504</b>	<b>11</b>

**Note** : \* the figure for 1980 is different from the figure in 1994. To some degree, this shows the inaccuracy of data; nonetheless, the table provides a picture of the land use change.

**Source** : Calculated from *BPN* (National Land Agency) data as quoted by the Indonesian Team (1995: 26)

It is particularly interesting to note that the infertile land increased by 1,600 per cent which partly indicates the increasing abandonment of land for speculation.<sup>19</sup> The land for settlements (indicated as “Village”) also increased significantly, from 70 thousand hectares in 1980 to 118 thousand hectares in 1994, a growth of 68 per cent. Given the quality of data and the unclear definition of village settlements,<sup>20</sup> the figures can also indicate the increasing residential land uses. On the other hand, wet rice field declined, from 246 thousand hectares to become 213 thousand hectares, a reduction of 13 per cent within 5 years.

The combination of accelerated population growth, deregulation policy and the increasing involvement of formal private sector in land development had an immediate impact on land price in *Jabotabek* area. Thus, by the late 1980s, the

<sup>19</sup> The fact that only 14 per cent of land owned by developers under Location Permit systems (see Table 5.7 in page 151) have been developed, explains why the infertile land increased remarkably.

<sup>20</sup> Most of new towns and real estate development were in *Kabupaten* areas, which in the Indonesian administration system is considered as rural area. Accordingly the land for new towns and real estate development are considered as village in the land recording system, regardless of their qualities.

land prices in central areas had sky rocketed. As can be seen from Figure 5.5, the price of land doubled and even tripled within a single year, an experience which may only be compared to the escalating land prices in Tokyo in the early 1970s.<sup>21</sup>

**Figure 5. 5:**  
**Land Price Escalation in Jakarta Central Area**

**Note** : These prices were unadjusted to inflation. The inflation rate was at an average of 8 per cent per annum (Central Bureau of Statistic, 1995)

**Source** : Panangian Simanungkalit and Associate, *Properti Indonesia*, May 1994

Concentration of land in the hands of a few large developers was immediately apparent. According to Leaf (1991) in Jakarta between 1974 and 1989, from 325 permits<sup>22</sup> granted to 183 names, more than half of the land under permit was actually controlled by 16 (8.7 per cent) developers. Several “new” players had obviously emerged which can be seen from the REI membership. Between 1983 and 1987 its membership grew from 261 to 720 companies. By the end of 1990

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<sup>21</sup> In 1970, as noted by Mike Douglass (1993), Tokyo experienced the first escalation in land price caused by the combination of population growth and the increasing command of large scale corporation over the economy.

<sup>22</sup> See Chapter IV for discussion of Location Permit.



the REI membership already reached 900 companies. By its 25th birthday in 1997, REI membership had grown remarkably to reach the figure of 2,400 developers as can be seen from Figure 5.6 below (REI, 1997b). Land speculation and concentration of ownership were apparent, for by the end 1996 it was recorded that in *Botabek* area there were 15 companies holding land over 1, 000 hectares (Table 5.5).

**Figure 5.6:**  
**REI Membership 1972 – 1996**

**Note** : *Kabupaten* Bogor, Tangerang and Bekasi are under jurisdiction of West Java province  
**Source** : REI membership list, REI 1997b

**Table 5.5:**  
**Land Holdings Over 1,000 Hectares by Companies in the *Botabek* Area as of April 1997**

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Source: *Warta Ekonomi*, December, 1996, *Properti Indonesia*, April 1997

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In the early 1990s, as the inflation rate approached 10 per cent, the Government applied a tighter monetary policy (Hill, 1996), which resulted in the increase of loan interest up to 25 - 26 per cent for the commercial Banks and 23 per cent for *BTN*. The first boom ended since the economy seemed to be overheated. By 1993 housing production in *Jabotabek* area was at the lowest level since 1983, although national housing production had increased, already starting the second boom (see Figures 5.7, 5.8 and 5.9). By 1993 the medium and large housing production in Indonesia had dramatically shifted into a boom, as can be seen from Figure 5.8.<sup>23</sup> This second boom came partly as the result of the Government's new approach to housing finance and construction permit procedures as part of deregulation policy to encourage more private participation in land development.

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<sup>23</sup>

Bank Papan Sejahtera only provides mortgage for medium and large types of housing.



**Figure 5.7:**  
**Housing Construction Financed by Bank Papan Sejahtera in Indonesia,**  
**1980 – 1994**

**Note :** *PTPS* = PT Papan Sejahtera (Housing Finance Corporation)  
**Source :** Ministry of Public Housing, 1995

**Figure 5.8:**  
**Development of Medium and Large Houses in Indonesia,**  
**1972 - 1996**

**Source :** REI, 1997c

**Figure 5.9:**  
**Housing Construction Financed by *BTN* and Bank Papan Sejahtera in  
Indonesia, 1980 -1994**

**Note** : *BTN* = State Mortgage Bank  
          *PTPS* = PT Papan Sejahtera (Housing Finance Corporation)  
**Source** : Ministry of Public Housing, 1995

The deregulation in 1992 allowed 100 per cent foreign investment with a minimum of only two millions US dollars to invest in Indonesia, as the result of the more liberal economic policy (Hill, 1996: 76-77; Firman, 1995: 210). The new regulation also simplified the procedure for obtaining Location Permits, and for satisfying the requirements for environmental impact analysis and public nuisance avoidance (Firman, 1995). The economic reform policies also accelerated the domestic investment, and as Hill (1996) noted, the domestic conglomerates became a significant commercial force. Investment by domestic as well as foreign firms rose strongly, with the involvement of foreign firms in hotels, real estate and commercial services leading the way. Thus, as noted by Data Consult (1996), by early 1996, 11 companies were approved to invest in housing development projects by *BKPM* (*Badan Koordinasi Penanaman Modal* - Investment Co-ordinating Board). One of the biggest companies was PT Pan Malayan Development, which proposed an investment of US \$ 50 million for a housing project in Bogor.

The second boom, which began in 1992 produced big profits in property development and encouraged banks to lend to this sector. By December 1993, the commercial banks had cut their interest rate down to between 17 and 19 per cent for housing mortgages, maturing at 10 to 15 years (*Properti Indonesia* May, 1994:67), which had further encouraged commercial lending for housing development. Thus within 5 years the proportion of property/ real estate loan has increased remarkably (see Table 5.6 and Figure 5.10), despite warnings from analysts that many of these loans had the potentials to become bad debts.<sup>24</sup>

**Table 5.6:**  
**Bank Lending to Property Market 1993 to 1996 (x Rp. 1,000,000,000)**

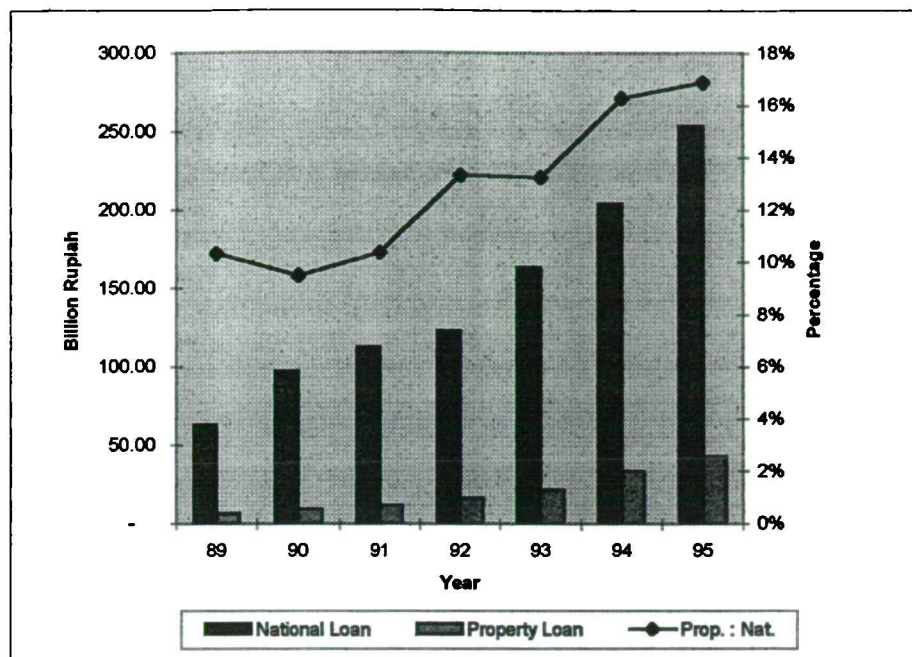
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**Note** : \* Estimated Figure  
**Simple Housing** : low-cost housing, the price of this house was fixed at Rp 12 million by the Government (appr. US \$ 4800).  
**Source** : Bank of Indonesia as analysed by Panangian Simanungkalit and Associate, *Properti Indonesia*, October 1996

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<sup>24</sup> Newspapers and magazines in Indonesia had reported the potential of bad debts in property sectors (see for example, *Media Indonesia* Friday 20 December, 1996; *Properti Indonesia*, October 1996; *Warta Ekonomi* 2 December 1996).

**Figure 5.10:**  
**Proportion of Property Lending to National Lending in Indonesia, 1989 - 1995**



Source: Adapted from Panangian Simanungkalit and Associate, 1996

The second boom between 1992 - 1994 was pushed up by the fact that house prices were still increasing, even though the first boom had already ended in 1989. Unverified<sup>25</sup> data from *Properti* Indonesia (October, 1996:35) show the continuation in house price increase (see Figure 5.11). The magazine also reported an increase of around 40 per cent within one year. This figure, however, is reasonable if we look at the following illustration. The price of type 21/60 houses (21 square meters building on 60 square meters plot) was marketed in 1990 at Rp. 8,500,000 (appr. US\$ 3,400) in Depok and Rp. 5,000,000 (appr. US\$ 2,000) in BSD.<sup>26</sup> Within six years the price rose sharply, far beyond the inflation rate of around 8 per cent annually. In 1996, the price of the same type of house in Depok had reached Rp. 44,108,064 (appr. US\$ 17,650) (*Properti*

<sup>25</sup> Data presented in the magazine was not adjusted to the inflation rate. It was not clear on how the data was collected.

<sup>26</sup> The prices are quoted from Leaf (1991: 187).

Indonesia, January 1996:108) while in BSD a slightly bigger house<sup>27</sup> (36/72) was marketed at Rp. 48,233,800 (appr. US\$ 19,295), <sup>28</sup> which means price increases of 320 per cent and 600 per cent respectively.

**Figure 5.11:**  
**Increase in House Price in *Jabotabek* Area (per cent),**  
**1989-1993**

**Note** : These prices were unadjusted to the inflation. Inflation rate was approximately 6 per cent annually  
**Source** : *Properti Indonesia* October 1996

Mortgage finance also played an important role in the boom as it offered possibilities to magnify capital appreciation as illustrated in the following example:

*Suppose a buyer bought a house for Rp. 100 million in 1989. He/she had presumably borrowed Rp. 80 million and put up Rp. 20 million of his/her own money. By 1992 the house would be valued at Rp. 170 million due to the increasing demand and inflation, 70 per cent more than its original cost (see*

<sup>27</sup> The 21/60 type of houses has not been built in BSD anymore except for the very simple houses as required by the Government, and the price of this type is fixed at Rp. 12,500,000.

<sup>28</sup> This price is quoted from a Price List provided by BSD, printed in 15 November 1996.

*Figure 5.11). The buyer had then gained a profit of Rp. 70 million of his/her Rp. 20 million, a capital appreciation of 350 per cent, which he earned within three years alone. He only had to offset this against a relatively small interest charge and depreciation of his/ her capital due to inflation.*

Essentially, the expectation for a quick return on investment as illustrated above makes the basic difference between the first and the second boom. The first boom was propelled by the Government monetary policy, particularly the banking reforms, while the second boom was largely caused by speculative buying in expectation of the rising house prices, as experienced in the first boom, and was further pushed by the simplification of land permits granting procedures.

There was a demand for medium and large houses, as is shown by the realisation of housing loans then<sup>29</sup> (see Figure 5.8). However, the demand was apparently a reflection of a pseudo-market, stimulated by speculative buying as illustrated in the above example. Speculators were attracted by the rising price of medium and luxurious housing which rose uncontrollably. When they began to release their stock to gain profit, this move made the market experience an over supply for these types of housing. Accordingly, the medium and large housing development slowed down in 1994 - 1995. Correction, then, was made by large developers by shifting to small housing production which was still in demand. Meanwhile some developers were also offering a price discount up to 20 - 30 per cent for medium and large types.<sup>30</sup> However, by then, land held by companies under the permit system in *Botabek* had already reached 121,631 hectares (Table 5.7), an area more than enough for 6,08 million houses, if it is assumed that 50 houses could be built on a hectare of land.<sup>31</sup> Yet, up to late 1996 only 16,609 hectares

<sup>29</sup> It is common in the real estate industry in Indonesia that a developer implements a "pre-project selling" strategy (see Chapter VII). In these circumstances, the realisation of a housing loan by *BTN* or other banks can be assumed as an ex-post demand.

<sup>30</sup> Compiled from the developers brochures and leaflets printed between September and November 1996, as well as from the Catalogue of Housing Expo held by REI in Jakarta 1 - 10 November 1996.

<sup>31</sup> See footnote 7 in Chapter III.

(14 per cent) had been developed (*Properti Indonesia*, April 1997:23). If it is further assumed that one household consisted of 4.3 persons,<sup>32</sup> then the land under Location Permit alone could accommodate 26,15 million people.

**Table 5.7:**  
**Location Permit Issued in Botabek Area, October 1996**

**note** : **Kod.** = **Kotamadya**

**Kod** = **Kotamadya** = Municipality

**SKPH** = **Surat Keputusan Pemberian Hak** = Decree for granting Land Right

**Master Title** = Title of land granted to developer before further split (see Chapter IV)

**Source** : *BPN*, quoted in *Properti Indonesia*, April 1997

On the other hand, the real demand for medium and luxurious housing is not that high. In *Botabek*, as suggested by Table 5.2 in page 133 (Housing Units built by *PERUMNAS* and by Private Firms in *Jabotabek*), the market can only absorb 26,089 units per year. This figure is not far from the estimation made by the vice president of REI, who calculated that in *Botabek* the market can only absorb 5,000 units of luxury housing and 20,000 units of small and medium housing per year.<sup>33</sup> This means that with this absorption capacity the currently available supply of land for housing in *Botabek* would not be absorbed for 201 years. This condition is more problematic if the size of the loan for property development in Indonesia is considered. Table 5.6 above suggests that the credit expansion to

<sup>32</sup> Struyk., Hoffman and Katsura (1990) reported that household size in Jakarta dropped from 5.6 to 4.2 persons per household. Bandung Urban Development Project estimated that household size in Bandung is 4.2 persons in 1990.

<sup>33</sup> Author's interview with Herman Sudarsono, vice President of REI, on 17 November 1996.

housing<sup>34</sup> in 1996 had reached Rp. 21,075 billion. With an interest rate of 22 per cent per year, the interest to be paid in one year would be Rp. 4,636 billion, which corresponds to Rp. 386,375 billion per months. This sum means that, in order to pay the interest alone, 3,863 house units of Rp. 100 million per unit should be sold within a month. Considering the market absorption capacity in 1996-1997, which was slowing down,<sup>35</sup> this figure is unlikely to be reached.

What is of great concern in this situation was the possibility of real estate crash, which would have major effects throughout the Indonesian Economy. An illustration may be taken from the British experience with a property crash in 1973/ 1974. The price rise experienced during a commercial boom in the early 1970s in Britain had induced a massive expansion in credit, based on the use of the rising value of the real estate as the collateral security. But when the price began to fall because of an oversupply, the collateral also declined in value to the point where it could not support the outstanding credit, which it had secured (Scott, 1996: 194). The land and house prices in *Jabotabek* have not declined yet, but if this should happen in the *Jabotabek* area, a remarkably high value of credit would become bad debt, producing a crash in the financial market.<sup>36</sup>

The 1990s also witnessed the developers' effort to survive in the slowing down condition of housing market and the threat of having a bad debt. Basically four strategies have been adopted by the private developers to hold out against the unfavourable property market conditions: first by shifting to low-cost housing<sup>37</sup>

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<sup>34</sup> This is the sum of Construction of Simple housing + Real Estate: Simple housing + Housing loan = (2,150+2,540+16,385)= 21,075 billion Rupiah (see Table 5.6).

<sup>35</sup> Panangian Simanungkalit, a prominent real estate analyst, estimated that in 1996-1997 the market was capable to absorb only 700 units housing per month (*Properti Indonesia*, October 1996).

<sup>36</sup> During the analysis of this data the possibility of a real estate crash became evident, which could have major effects throughout the Indonesian economy. As the world now knows only too well, this did occur. The author has presented this prediction in the 5<sup>th</sup> Asian Urbanisation Conference held in SOAS, London 26-27 August 1997 and in the 4<sup>th</sup> APSA International Conference in Bandung Indonesia on 2-4 September 1997(see Winarso, 1999).

<sup>37</sup> A same strategy was applied by private sector in Bangkok during the end of 1980s and the early 1990s (see Foo, 1992).



and providing discounts as explained above, second by encouraging secondary market, third by opening the housing market to foreigners and fourth by adopting more professional estate management.<sup>38</sup>

Developing a new town on a large area of land definitely requires a huge investment. As an illustration, Bintaro Jaya, a new town developed by Ciputra on 1,700 hectares required Rp. 10,000 billion (Warta Ekonomi, December 1996:18). Herman Latief (1995), the president director of Lippo new towns, estimated that at least Rp. 500 billion is needed to develop 100 hectares of land. This sum of money is not readily available even from commercial banks. Therefore, securing fresh and liquid funds from the stock exchange is one alternative apprehended by private developers and obviously, only large companies which satisfy certain requirements can be listed in the stock market.

Thus, by 1996 17 companies engaged in property development (including hotels, offices and shopping centres) were already listed on the Jakarta Stock Exchange. They included Jaya Real Property, Ciputra Development, Dharmala Intiland, Lippo Land Development, Pujiadi and son, Modern-land Realty and several others (*Properti Indonesia*, January 1996:31). It should be noted here that the first two companies are under the ownership of Ciputra (see Table 5.8).

Compared to that of popular housing, the contribution of formal developers on housing production is very small,<sup>39</sup> nevertheless the impact on the space restructuring in *Jabotabek* is tremendous. This is because the developers can consolidate small parcels into very large development for low density housing, provide public facilities such as roads, piped water and, in the case of Lippo Karawaci, a regional shopping centre, regional hospital, international hotels and office buildings (Master Plan Lippo Karawaci, 1995). As the land prices in

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<sup>38</sup> To be discussed in Chapter VII.

<sup>39</sup> It is estimated that up to 1989 only 15 per cent of annual housing production was developed by the professional sector (Struyk, Hoffman and Katsura, 1990: 69).

Jakarta continued to increase, only land in a considerable distance<sup>40</sup> from the centre was still feasible for this kind of development. Thus, by 1995 the space occupied by *Jabotabek* had expanded to a radius of 30 to 40 km away from the centre. With a poor transportation system, a one-way commuting time up to two hours became a common experience for the commuters (the mean travel time to job places is 60 minutes while the mode is 120 minutes).<sup>41</sup>

This period also witnessed a new era in *Jabotabek* development as by then *Jabotabek* had been integrated into a global city system.<sup>42</sup> In these circumstances, the role of the private sector was particularly important especially in restructuring the urban space. The accumulation of land by limited number of people has become very apparent (see Table 5.8). By the early 1990s, the new towns<sup>43</sup> were mushrooming: within ten years, 20 new towns had been created, a number which is remarkable.<sup>44</sup>

The involvement of private developers in the restructuring process is not only in the accumulation of land and the production of formal houses, but also in the construction of new roads. By the early 1990s as the traffic to and from Jakarta

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<sup>40</sup> Dowall and Leaf, (1991) demonstrated that the land prices declined with the distance from the centre, they also showed that there was a significant effect of infrastructure upon land price. Land with infrastructure would be valued up to 90 per cent more than land without infrastructure (see Chapter VII).

<sup>41</sup> See Chapter VI.

<sup>42</sup> Tommy Firman in his paper delivered in the International Conference on Cities and the New Global Economy has nicely shown the transformation of Jakarta into a system of a global city. He showed the increasing role of Jakarta as an international management centre, and the locus of advanced production centres. He also showed the increasing number and amount of both foreign and domestic investments in the *Jabotabek* area (Firman, 1995).

<sup>43</sup> The definition of a new town is debatable. The new town here is loosely defined as residential development in an area of more than 500 hectares which provides minimum urban facilities such as, shop houses, small offices, post offices and schools.

<sup>44</sup> Between 1946 and 1977, 31 new towns were built in Britain, including 12 second generation new towns produced from 1961 to 1972 (Cresswell and Thomas, 1972; Aldrige, 1979; Corden, 1977). In France, 9 new towns were developed within 25 years (Roullier, 1993). In the United States, more than hundred new towns were developed since the end of World War II (Corden, 1977).

**Table 5.8:**  
**Project and Area of Land Hold by “Si Pengembang” in**  
**Jabotabek Area**

Companies under Management of Ciputra (“Si Pengembang”)	Area (hectares)	
A Bumi Serpong Damai		6000
1. BSD (Tangerang)	6000	
B. Ciputra Group		1,947.63
1. Citra Garden I, II, III (Jakarta)	430	
2. Citra Land Sentra (Jakarta)	4.13	
3. Citra Land Kuningan (Jakarta)	13.5	
4. Citraland Industrial Estate (Tangerang)	500	
5. Citra Garden Grand City (Tangerang)	1,000	
C. Metropolitan Group		2,775.9
1 Kosambi Baru (Tangerang)	15	
2. Harapan Baru (Tangerang)	25	
3. Industrial Estate Jababeka (Tangerang)	510	
4. Kota Cikarang Baru (Tangerang)	1,400	
5. Bekasi Metropolitan Mall (Bekasi)	11.5	
6. Kali Baru Bekasi Barat (Bekasi)	72.5	
7. Medan Satria Bekasi Barat (Bekasi)	41.9	
8. Wisma Metropolitan I, II, III (Jakarta)	700	
D. Jaya Group		3,712
1. Bintaro Jaya (Jakarta/Tangerang)	1,700	
2. Taman Impian Jaya Ancol (Jakarta)	250	
3. Garden Residence Kemang (Jakarta)	12	
4. Puri Jaya (Tangerang)	1,750	
E. Pondok Indah Group		1,690
1. Pondok Indah (Jakarta)	450	
2. Puri Indah (Jakarta)	180	
3. Bukit Cinere Indah (Jakarta)	60	
4. Pantai Kapuk Indah (Jakarta)	1,000	
Total Land Hold under this group in <i>Jabotabek</i> alone		16,125.53

Source : Adapted from *Properti Indonesia* February 1994

worsened, the private developers started to invest in the development of toll roads. The first proposal of this kind was to link Bintaro Jaya, BSD, Citra Raya, Puri Jaya, Teluk Naga and Pantai Kapuk Indah,<sup>45</sup> a road plan which had never been considered in the *Jabotabek* Plan nor the WJUDP plan. The road plan was then discussed in the preparation of the Spatial Plan of *Kabupaten* Tangerang which is yet to be approved.<sup>46</sup> Nonetheless, the construction of a 14 Km. long

<sup>45</sup> This six new towns are under the management of Ciputra.

<sup>46</sup> The Spatial Plan for *Kabupaten* Tangerang is still in draft version. This draft plan, however, has accommodated the plan to develop the toll road which was already initiated by private developers.

toll road connecting Jakarta-Serpong through Bintaro Jaya and BSD had already been started. The development of the first phase, which required an investment of Rp. 350 billion (appr. US\$ 1.4 billion) (Warta Ekonomi, December 1996), was funded by a consortium of three companies namely BSD, Jaya Real Property and PT Jasa Marga <sup>47</sup> (*Properti Indonesia*, June 1996: 29).

Although the involvement of the private sector in Indonesia's economic development is not unplanned,<sup>48</sup> nonetheless, the magnitude of private sector development in space restructuring in *Jabotabek* is extraordinary, and arguably its contribution to the provision of housing in the region can also be increased significantly. Therefore, the rise of private sector as a major actor in the development of the region, undoubtedly, marks one of the important cycles in the space restructuring process.

### Conclusion

The restructuring processes taking place in *Jabotabek* have transformed what was the tiny city of Jayakarta into one of the biggest cities in the region, a city which is economically integrated with other cities in the global region. At least three major cycles can be identified. The first cycle was finished in the 1950s when the city changed from a colonial city into the capital of the Republic of Indonesia. The second was largely accomplished in the 1970s, when the economic policy of the Government brought a high economic growth and energised massive urbanisation in the area. The third, propelled by the flourishing private sector particularly in land development, has been shaping Jakarta into a city, which is economically integrated into a global system of urban areas.

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<sup>47</sup> The first two companies are owned by Ciputra, while the last is owned by the Government.

<sup>48</sup> Hill (1996) noted that the shift to the private sector for funding the development is revealed in both the Government's Repelita (Five-years Development Plan) and in the actual investment. In particular, the 5th Repelita (1981-1986) stipulated that private sector would provide over 50 per cent of the total funding.

High economic growth and rapid urbanisation have been experienced in *Jabotabek* area. These factors, combined with the more liberal investment policy of the Government have encouraged the increasing role of the private sector in land development. The emergence of private land developers in the *Jabotabek* area has been particularly important for the following reasons. First, private developers are now the leading institutions which can create market and provide a significant amount of formal housing. Second, private developers are now expanding their activities from merely investing in housing development to the provision of 'public goods' including roads and piped water. Third, private developers, with their ability to mobilise funds and their control over considerable amount of land, are influencing the making and implementation of statutory spatial plans for the region. Therefore, it can be argued that the most recent restructuring processes undergone in the area has been driven, to a great extent, by large-scale land speculators and developers. Under such conditions the sprawl of development and the choice of formal housing types are largely determined by the decisions of the private sector.

*Part three*  
**Developer Behaviour in Land Development**

## **Chapter VI**

### **Profile of Developers and Buyers in the Case Study Area**

#### **Introduction**

The important events which triggered the mushrooming residential development in *Jabotabek* area, as discussed in Chapter V, were the deregulation policies in the 1980s. Within ten years alone the 20 new towns had emerged. This fact raises the questions on who the developers are as well as on the kind of companies which can undertake such a massive development. It also raises the question on who the buyers are. This chapter deals with those questions. It starts with the profiles of developers in *Kabupaten* Tangerang as the case study area, followed by discussions on the characteristics of the buyers of the new residential projects in the area.

Tangerang was chosen as the case study area because most of the large-scale residential development in *Jabotabek* is located in this *Kabupaten*. It was therefore safe to assume that the developers in *Kabupaten* Tangerang could represent the characteristics of the large developers in *Jabotabek*. The information was basically gathered from in-depth interviews to 21 developers in *Kabupaten* Tangerang. In addition to them, 2 developers in Jakarta, 2 developers in *Kabupaten* Bogor and 2 developers in *Kabupaten* Bekasi were also interviewed. They included directors, vice directors or general managers of the companies who have been carrying out residential development projects over 75 hectares in *Jabotabek*. Other secondary sources, mainly from Property magazines and National Land Agency reports on Location Permit, were also utilised. In addition, secondary information was also gathered from the Internet, particularly from home pages of the land development companies and other real estate related companies in Indonesia. The characteristics of buyers were drawn from structured interviews to 232 households. The households were chosen using stratified systematic sampling technique in 15 housing projects of more than 75 hectares in *Kabupaten* Tangerang. The interviews were conducted from

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28 October to 2 December 1996 to the heads of each household.<sup>1</sup>

### A Picture of the Real Estate Industry

Struyk, Hoffman and Katsura (1990: 74-75) characterised residential land developers in Indonesia into two categories: a small number of sophisticated developers and a large number of small firms.<sup>2</sup> This, however, hardly pictures the real estate industry in *Jabotabek* area. The study area is the development location of large developers. The latest available data suggest that in 1997, there were 86 residential development projects in *Kabupaten* Tangerang (*Properti* Indonesia, April 1997) and 77 residential projects in *Kabupaten* Bogor (*Properti* Indonesia, June 1997), ranging from 5 hectares<sup>3</sup> to 6,000 hectares.<sup>4</sup> These figures, however, can not be confirmed due to the unclear sources.<sup>5</sup> Small land development projects are usually also owned by large developers. Unfortunately, due to the conflicting information from the sources, it was not easy to find the real owners of the projects. Therefore, the best way to understand the picture of the industry is by describing the size of the 60 projects as 'sample' of residential projects in *Kabupaten* Tangerang<sup>6</sup>, the size of Location Permit granted and the history of some very large developers.

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<sup>1</sup> See discussion in Chapter III on the research methodology

<sup>2</sup> It seems that according to Struyk, Hoffman and Katsura (1991) a small firm is that which builds less than 200 house units per project, and a large firm is one which builds more than 500 house units per project.

<sup>3</sup> If it is assumed that 50 house units could be built in a hectare land (see footnote 7 of Chapter III), there would be 250 house units in 5 hectare land. There is a requirement for projects with over 250 house units should undergo an additional review from the World Bank if the developers want to acquire loan from *BTN*.

<sup>4</sup> These are the proposed areas; the actual area developed is less than the figures. The largest residential area which has been developed so far is Bumi Serpong Damai (BSD) which consists of 2,000 hectares of land.

<sup>5</sup> The figures from the property magazines are more reliable since the location of each project is also shown. However, the exact figures might be higher if only the name of the companies is considered, without reference to the location.

<sup>6</sup> It is estimated that the residential projects in Tangerang did not exceed 100.



### *Size of the Projects*

In *Kabupaten* Tangerang, from 86 residential projects noted in the Magazines, only 60 companies can be traced.<sup>7</sup> Altogether, these companies hold Location Permits for 27,090 hectare land, which corresponds to 64 per cent of the total area under Location Permit in *Kabupaten* Tangerang (42,293 hectares).<sup>8</sup> From these companies, 57 per cent develop projects on land under 100 hectares with total area of 1,420 hectares. This means that the remaining 43 per cent develop residential area on land of more than 100 hectare. Only 15 per cent of them develop residential projects on land of more than 500 hectares. However, from Table 6.1, it is clear that these companies' projects are developed on land of more than 200 hectares.

**Table 6.1:**  
**Residential Area in Kabupaten Tangerang 1997**

Project Area	Number	Percentage	Total Area Developed
Less than 100 ha	34	57	1,495,3 ha
100.1 – 200 ha	11	18	1,630 ha
200.1 - 500	6	10	2,550 ha
More than 500.1 ha	9	15	21,480 ha
<b>Total</b>	<b>60</b>	<b>100</b>	<b>27,180 ha</b>

Source: Calculated from Table 6.2

If the biggest project, the 6,000 hectares of BSD, is omitted, the average area of the projects is 356 hectares (mode 100 hectares). This number definitely shows a large project since 17,800 house units can be built in this area.<sup>9</sup>

<sup>7</sup> The number, unfortunately, is different from the number in the Property magazines due to the inconsistencies among different sources. These projects were selected because their sizes, owners and locations were known.

<sup>8</sup> See Table 6.3. The figure (from the office of National Land Agency in *Kabupaten*) is slightly different from that in Chapter V (Table 5.7; from the office of National Land Agency in Central level) which shows the inaccuracy of land recording system of the Land Agency.

<sup>9</sup> 50 house units in a hectare land, see footnote 7 Chapter III.

**Table 6.2:**  
**Residential Projects and Companies in Tangerang in 1997**

No	Project	Location	Distance (Km)	Area (ha)	Company	Parent Company
1	Permata Balaraja	Balaraja	36	50	Restu Alam Permata	Amcol Group
2	Taman Balaraja	Mauk	32.5	50	Amcol Land Developme	Amcol Group
3	Alam Sutera	Serpong	19	700	Alfa Goldland Realty	Argo Manunggal
4	Palem Semi	Karawaci	21	80	Bina Sarana Mekar	Argo Manunggal
5	Puri Beta	Joglo	10	75	Beta Gold Land	Argo Manunggal
6	Taman Alfa Indah	Joglo	10	10	Alfa Goldland Realty	Argo Manunggal
7	Bumi Indah	Pasar Kemis	28	200	BHS Land	BHS Group
8	Buana Gardenia	Cipondoh	39	30	Bina Rencana Agung	Bina Rencana Agung
9	Citra Raya	Cikupa	33	2700	Citraland	Ciputra Development
10	Duta Gardenia	Tangerang	24	100	Duta Putra Mahkota	Duta
11	Villa Dago	Ciputat	22.5	75	Duta Putra Mahkota	Duta
12	Villa Taman Cibodas	Jakate	27.5	100	Duta Putra Mahkota	Duta
13	Bumi Eksekutif	Pamulang	22.5	14	Puriayu Lestari	Elang Group
14	Taman Elang	Mauk	32.5	13.3	Citra Saudara Abadi	Elang Group
15	Kebayoran Regensi	Pamulang	22.5	400	Panca Muara Jaya	Ersenal Group
16	Vila Tangerang Regen	Pasar Kemis	26	150	Panca Muara Jaya	Ersenal Group
17	Gading Serpong	Serpong	20	1080	Jakarta Baru Cosmopolitan	Sumarecon Agung
18	Lippo Karawaci	Karawaci	23	500	Lippo Karawaci	Lippo Group/Kalbe Group/Ersenal
19	Villa Permata	Karawaci	24	400	Darma Sarana Nusa	Lippo Group*
20	Puri Metropolitan	Gondrong	15	120	Metropolitan	Metropolitan Group
21	Teluk Naga	Teluk Naga	20	3200	Mandara Permai	Metropolitan Group
22	Bukit Modern	Pondok Cabe	21	50	Modernland	Modern Group
23	Kota Modern	Kod. Tangerang	18	700	Modernland	Modern Group
24	Taman Adyasa	Cisoka	50	150	Adyasa Konstruksindo	Modern Group
25	Melati Mas	Serpong	20	300	Misori Utama	Ongko Group
26	Bintaro Jaya	Pondok Aren	15	2300	Jaya Real Property	Pembangunan Jaya
27	Puri Jaya	Pasar Kemis	30	1800	Jaya Real Property	Pembangunan Jaya
28	BSD	Serpong	22	6000	Bumi Serpong Damai	Pondok Indah Group/ Salim Group/ SinarmasGroup/ Sudwikatmono
29	Kota Tiga raksa	Tigaraksa	39	3000	Tiga Raksa	PWS
30	Taman Banjar Wijaya	Cipondoh	20	120	Sinar Wijaya Ekapratama	Wijaya Karya
31	Taman Sari Pesona Bali	Cirendeui	18	20	Wijaya Karya	Wijaya Karya
32	Amara Pura	Serpong	24	6	CJ Property	
33	Bangun Grija Islam	Balaraja	39	18	Bagun Segara	
34	Bumi Indah	Pasar Kemis	28	150	Artha Buana Sakti	
35	Bumi Srana Rejeki	Mauk	32.5	10	Bumi Sarana Rejeki	
36	Daru Indah	Tigaraksa	38	10	Andaru Sakti	
37	Dasana Permai	Legok	26	500	Darma Sarana Nusa	
38	Flamboyan Village	Rempoa	14	10	Flamboyan Mitra Giya	Pujiadi Pretge
39	Geria Jakarta	Pamulang	21	50	Setia Cipta Markindo	Setia Cipta Dinamika Group
40	Gradenia Estat	Ciputat	19	5	Tatacitra Grahaseras	

To be continued on the next page.

**Table 6.2 (continued):  
Residential Project and Companies in Tangerang in 1997**

No	Project	Location	Distance (Km)	Area (ha)	Company	Parent Company
41	Kedaton	Pasar Kemis	33	200	Duta Realtindo	Ciputra Group *
42	Kosambi Baru	Semanan	20	85	Taman Harapan Indah	Metropolitan Group
43	Liga mas Regensi	Karawaci	23	30	Liga Mas Hunian Seja	
44	Medang Lestari	Legok	25	100	Masa Kreasi	
45	Nirwana Serpong Agun	Pamulang	24	150	Subur Progres	
46	Pamulang Estat	Pamulang Timur	23	40	Pelangi Buana Utama	Tiga Berlian
47	Pamulang permai	Pamulang	24	125	Bumi Upaya Griya	
48	Perumnas	Karawaci	23	450	Perumnas	Perumnas
49	Pondok Payung Mas	Ciputat	20	5	Burna Jaya	
50	Prima Bintaro	Pondok Aren	13	2	Puri Gading Selaras	Kalbe Farma Group
51	Puri Marisa	Ciputat	20	15	Tatawira Sakti	Mariza Haque & Ilang Fauzi
52	Taman Pabuaran	Pabuaran	15	12	Bumiprima Alamidah	
53	Taman Rempoa Indah.	Rempoa	13	100	Taman Rempoa Indah	Brasali Group
54	Tataka Puri	Curug	27.5	150	Bukit Permata Nirwana	
55	Telaga Bestari	Cikupa	34	70	Sinar Puspa Persada	
56	Vila Ilhami	Karawaci	22	100	Mustika Hadasari	
57	Vila Inti Persada	Ciputat	23	30	Altan Karsaprima	Bagun Cipta Sarana
58	Vila Jombang Baru	Ciputat	18	5	Sadana Manekaguna	
59	Vila Pamulang	Ciputat	23	115	Reni Jaya	Reni Jaya
60	Vila Pamulang Mas	Ciputat	20	60	Banguncentra Pamulang	Misori Utama/Indokisar

**Note** : \* Take over

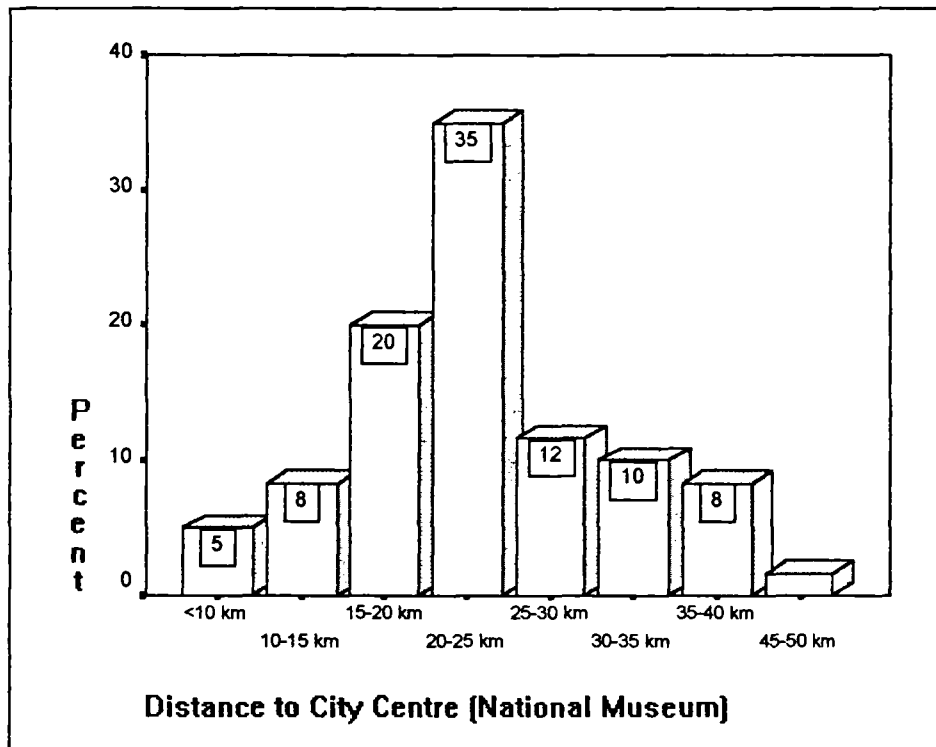
**Source** : *Properti Indonesia*, April 1997; November 1996; October 1994; and other sources

The locations of these projects are scattered in *Kabupaten* Tangerang, most of the projects (35 per cent) are at a radius of 20 to 25 km from the Centre of Jakarta<sup>10</sup> (see Figure 6.1). As suspected, the number of the projects becomes less as the distance increases.<sup>11</sup> However, the average (mean) project size did not differ significantly by the distance to Jakarta. It, however, becomes bigger as the distance increases to a certain point. The larger (mean) was 622 hectares located at a radius of 35 to 40 km from Jakarta (see Figure 6.2).

<sup>10</sup> The National Monument is assumed as the centre of Jakarta.

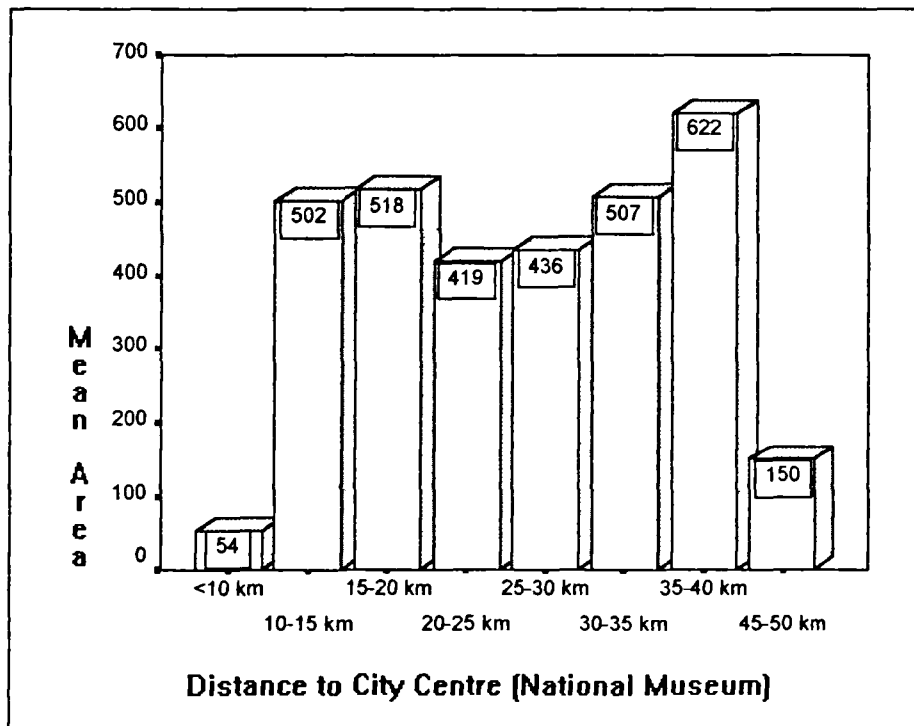
<sup>11</sup> The location decision of the developers is discussed in Chapter VII.

**Figure 6.1:**  
**Percentage of Residential Projects by Location (1997)**



Source: Calculated from Table 6.2.

**Figure 6.2:**  
**Project Area by Distance to Jakarta (1997)**



Source: Calculated from Table 6.2

**Location Permits**

The picture of real estate industry in *Kabupaten* Tangerang can also be seen from the Location Permits issued.<sup>12</sup> Based on the data obtained from the National Land Agency (1996), up to October 1996, 395 Location Permits were granted to 307 companies. The area sizes under the permits ranged from only 0.37 hectare to 900 hectares. The majority (60 per cent) of the Location Permit was issued for area of less than 50 hectares. Only 2.8 per cent were issued for area of more than 500 hectares (see Table 6.3).

**Table 6.3:**  
**Location Permits Granted in *Kabupaten* Tangerang**  
**up to October 1996**

Size of Location Permit	Number	Percentage	Total Area (ha)
>50 hectare	239	60.5	4,252.07
50 - 200 hectare	89	22.5	10,860.11
200 - 500 hectare	56	14.2	19,045.9
500 -900 hectare	11	2.8	8,135.00
<b>Total</b>	<b>395</b>	<b>100</b>	<b>42,293.09</b>

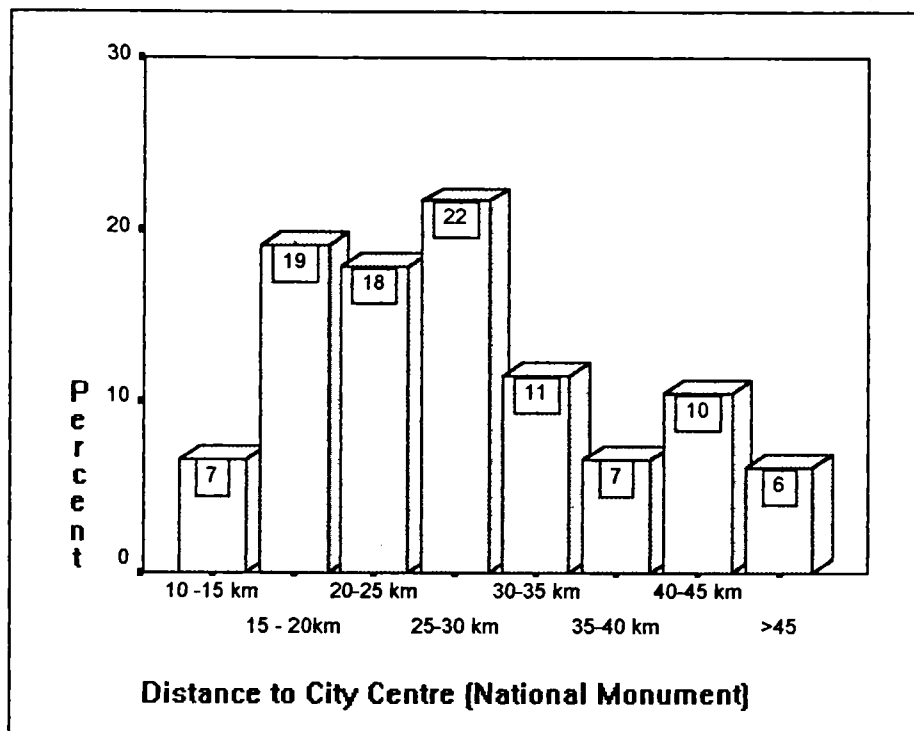
Source: BPN (National Land Agency, 1996) *Kabupaten* Tangerang

In average, the Location Permits were issued for an area of 107 hectares (median 30 hectares). The mean largest size of the area under Location Permit (198 hectares) was issued for land located at a radius of 30 to 35 km from Jakarta. The Location Permits were mostly (22 per cent) issued for land located at a radius of 20 to 25 km from Jakarta (Figure 6.3), which concedes with the number of projects built in this distance (see Figure 6.1).

Although according to the records from the National Land Agency (BPN, 1996) the largest Location Permit issued was for an area of 900 hectares, the actual sizes of land under direct control of some developers were significantly higher than this figure as some of the companies being granted the Location Permits are actually owned by one big developer.

<sup>12</sup> See Chapter IV for the discussion of Location Permit.

**Figure 6.3:**  
**Location Permit Issued by Distance from Jakarta (1996)**



Source: Calculated from BPN (1996)

Interviews with developers who secured Location Permits for land of more than 75 hectares in the region also reveals that 12 of them (44 per cent) actually possessed Location Permits for area of more than 500 hectares (see Table 6.4), which is certainly larger than the largest area given Location Permit according to the BPN (1996) records. If, from the interviews, only developers who hold projects in Tangerang are considered, the total area under Location Permit they have accumulated is 20,545 hectares (see Table 3.4 in Chapter III) which corresponds to 48.5 per cent of the total land under Location Permit in *Kabupaten* Tangerang. The regulations<sup>13</sup> stipulate that only registered real estate companies may apply for Location Permit and consequently only these companies are allowed to build formal housing. Hence, the developers who secured 48.5 per cent Location Permit were also likely to secure up to 48 per cent of the supply of land for housing in the area.

<sup>13</sup>

Ministry of Home Affairs Decree No. 5 of 1971 and No. 5 of 1974.

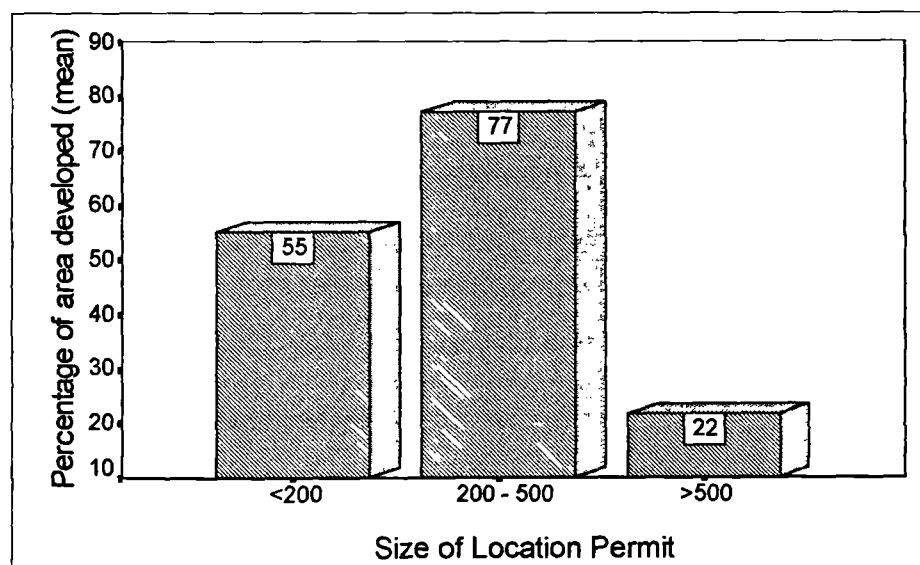
**Table 6.4:**  
**Location Permit Secured by Developers (1996)**

Size of Location Permit (ha)	Number	Percentage	Total area (ha)
Less than 200	10	37.0	1,095
200 - 500	5	18.5	1,900
More than 500	12	44.5	59,530
	27	100	52,525

Source: Interview with developers 1996

Figure 6.4 shows that the percentage of the area developed by companies holding Location Permit for land of less than 200 hectares is higher than those holding Location Permit for land of more than 500 hectares. However the actual figures show that those holding Location Permits for areas of more than 500 hectares have actually developed a larger area than those holding Location Permit for areas of less than 500 hectare (see Table 6.5).

**Figure 6.4:**  
**Percentage of Area Developed (1996)**



Source: Interview with developers 1996

Looking into their annual housing productions, the interviews reveal that in average, the developers produced 1,338 house units<sup>14</sup> which is far below the

<sup>14</sup>

The interviews were conducted in November- December 1996.

average production from 1981 to 1993 when the region experienced the first boom (see Table 5.2 in Chapter V). This is because in 1996 when the interviews were conducted, the market for housing was going down after the second boom in 1994/1995.<sup>15</sup>

**Table 6.5:**  
**Average of Released Land, Developed Land and Annual Housing Production carried out by Developers (1996)**

Size of Location Permit (ha)	Mean Released Area (ha)	Mean Developed Area (ha)	Mean Annual Housing Productions (units)
<200	76	57	1684
200 –500	286	310	775
>500	1,341	500	1227

Source: Interview with developers

It is also apparent from the interviews, that the companies holding Location Permits for area of less than 200 hectares produced more house units than those holding Location Permits for area of more than 500 hectares. If 50 house units of 1:3:6 proportion can be built in a hectare land, logically developers holding Location Permits for area of more than 500 hectares because they have altogether developed area larger than developers holding Location Permits for land of less than 500 hectares - should have produced more houses than those holding Location Permits for land of less than 200 hectares. However, this was not the case.

The possible explanation of this fact is as follows: the companies holding Location Permits for area of less than 200 hectares generally produce small and medium size houses, whereas companies holding Location Permit for area of more than 500 hectares usually build larger houses and provide more space for public facilities and amenity.

Moreover, if the land released by the developers is considered, it is clear that developers who possess Location Permits for area of more than 500 hectares

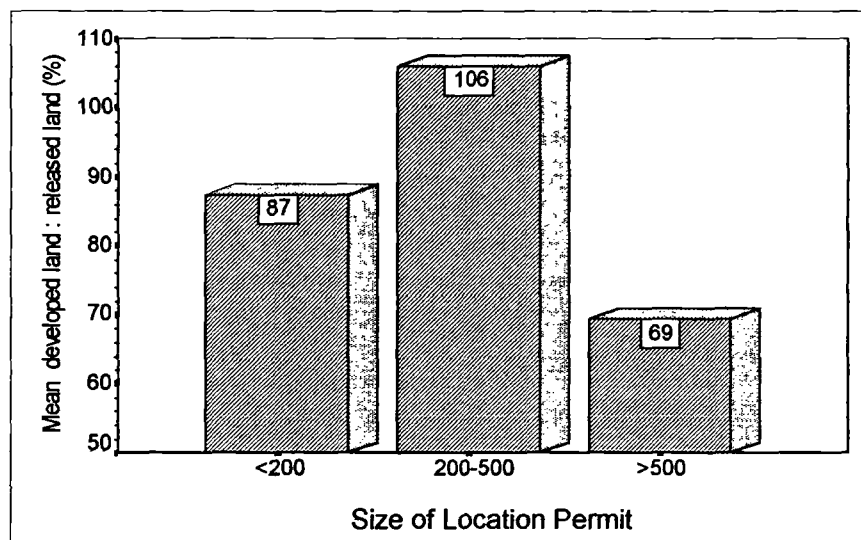
<sup>15</sup>

See the discussion in Chapter V.



developed smaller land in proportion to the area that have been released than developers holding Location Permits for area of less than 500 hectares. In average the area of land developed out of land released is 83 per cent (median 67 per cent). This figure shows the ability of the large developers to bank the land<sup>16</sup> (see Figure 6.5).

**Figure 6.5:**  
**Proportion of Developed Land to Released Land (1996)**



Source: Interview with developers

### ***Employment***

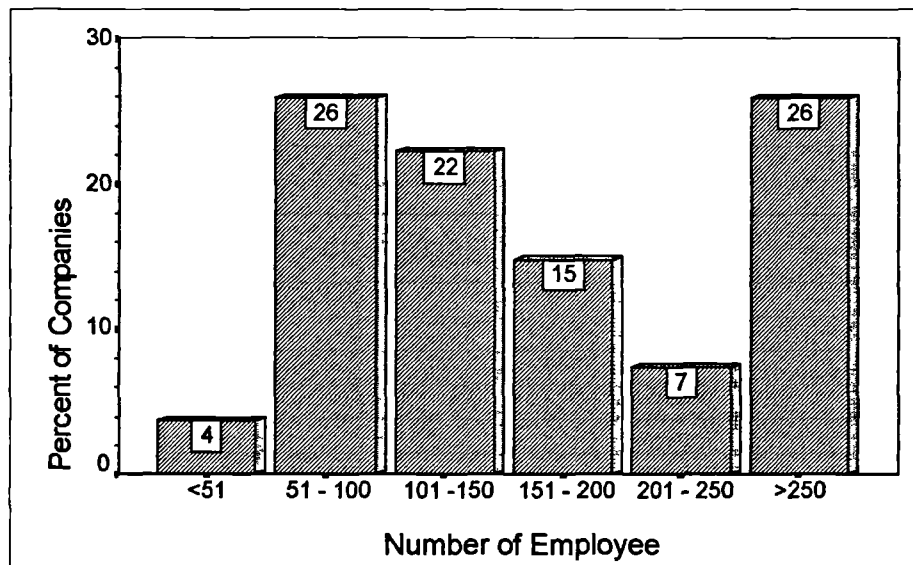
In terms of employment, the survey reveals that 26 per cent of the companies employ between 51 to 100 persons, 26 per cent employ more than 251 persons and 22 per cent employ 101 to 150 persons (see Figure 6.6). The total number of labour absorbed in the industry, unfortunately is not known, even though a report from Bumi Serpong Damai New Town (1995) claims that the first phase of the project on 1,000 hectares land had created direct employment of over 2,000. This number was divided as follows: 600 in the developer's office, 400 in the shopping centre (BSD Plaza) and 600 in the several other places including 6 Banks, Clubhouse of the BSD Golf Course in sub-centre two, and another thousand in sub-centre one. Sub-centre one provides facilities such as market,

<sup>16</sup>

To be discussed in Chapter VII.

shops, schools, and recreation centre. The same report also asserts that the indirect employment created by the project was also enormous. This was created through more than 30 sub-contractors who built the houses, roads and bridges, electrical networks, and office buildings.

**Figure 6.6:**  
**Percentage of Companies by the Number of Employees**



Source: Interview with developers

### *Profiles of some developers*

History of the developers also pictures the real estate industry in the study area. Table 6.2 above shows that from 60 developers in *Kabupaten* Tangerang, more than halves are actually controlled by only few companies. Amongst the few, perhaps only *Si Pengembang* built their group genuinely from land development business.<sup>17</sup> The other companies are generally involved in land development as part of their diversification strategies particularly because they saw the huge economic opportunities from land development business in the boom period.<sup>18</sup> By May 1996, 15 companies engaged in property development were listed in the

<sup>17</sup> See Chapter V.

<sup>18</sup> According to a book on Top Companies and Big Groups in Indonesia (1995), only 39 companies are recorded as doing business in land development in Indonesia. And almost all of the companies were not started as land development business.

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Jakarta Stock Exchange with Lippo Land as the company with the largest asset<sup>19</sup> (see Table 6.6 ).

**Table 6.6:**  
**Developers' Assets as Listed in Jakarta Stock Exchange (1996)**

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**Note:** \* as per 06/30/95, \*\* as per 12/31/95, \*\*\* as per 04/30/95  
**Source:** Properti Indonesia, May 1996

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### *Lippo Group*

Lippo, which developed two new towns in *Jabotabek*: Lippo Karawaci and Lippo Cikarang started the company from financial service, founded by Mochtar Riyadi in the 1970s. He has then expanded his business to include urban and Property development, infrastructure development and industrial activities. In 1995 the company was estimated to have an asset of 12,697 billion Rupiah (Appr. US\$ 507.88 million<sup>20</sup>) (Warta Ekonomi, 1995). Lippo Land, the real property division of Lippo group has acquired a substantial amount of land in *Jabotabek* alone. (See Table 6.7). Lippo also expanded their property business in

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<sup>19</sup> Asset in stock market listing should be seen cautiously. Some companies might have marked up their asset in order to enlarge their equity for loan agreement.

<sup>20</sup> See note 13 in Chapter V.

Hong Kong and in Fujian, China,<sup>21</sup> and Australia.

**Table 6.7:**  
**Project and Area of Land Hold under Lippo Group in**  
**Jabotabek Area (1994)**

Project	Area (hectare)
1 Lippo City (Bekasi)	2000
2 Lippo Karawaci (Tangerang)	700
3 Lippo Centre (Jakarta)	0.3
4 Sudirman Tower and Condominium (Jakarta)	1.5
5 Royal Sentul Highland (Bogor)	2000
6 Permata Hijau Apartment (Jakarta)	2.5
7 Palace View Apartment (Jakarta)	3.5
8 Le Crystal Apartment (Jakarta)	2
9 Jakarta Country Club (Jakarta)	4.5
<b>Total</b>	<b>4714.3</b>

Source; Adapted from *Properti Indonesia*, February 1994

#### *Si Pengembang Group*

Unlike Mochtar Riady of Lippo, Ciputra, the principal shareholder of 'Si Pengembang' started his company from property development in 1974. His group has now expanded to develop and manage more than 60 companies. The companies are grouped into five large parent companies: PT Pembangunan Jaya; PT Metropolitan Development; PT Bumi Serpong Damai, PT Pondok Indah and PT Ciputra Group. This group alone manages 11 residential projects of more than 400 hectares in *Jabotabek*. In *Kabupaten* Tangerang, this company is carrying out 8 residential land development (see Table 5.8 in Chapter V in page 155).

Si Pengembang also expands their property business to Vietnam with the development of Citra City (*Properti Indonesia*, February 1996). In 1994, Ciputra Development, one of Ciputra's subsidiaries companies was listed in the Jakarta Stock Exchange for further capitalisation. According to the *Properti Indonesia* (February 1996), in June 1995, the asset of Ciputra Development had reached Rp. 1.83 trillion (Appr. US\$ 732 million), an increase of around Rp 430 billion

<sup>21</sup> Euromagazine in its April 1997 publication, provided supplement on the Indonesian economic condition. It discussed critically the involvement of Lippo in Indonesian economy.

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(Appr. US\$ 172 million) from their asset value in 1994.<sup>22</sup> The success of Ciputra Development was followed by Jaya Real Property, which is also one of the subsidiaries companies, to go into the market.

#### *Argo Manunggal Group*

Argo Manunggal expands their business in land development from textile industry in Central Java, which was developed in 1972. In 1990 The Ning King, the owner, diversified their business and started developing land for residential development. Now the group owns three large land development companies (PT Kompas Indonesia, 1995). One of them is PT Alfa Gold Land Realty, which developed Alam Sutera, a 'new town' in an area of 700 hectares in Tangerang with total investment of more than 2.9 Trillion Rupiah (Appr. US\$ 1.16 billion.) (*Properti Indonesia*, October 1994).

#### *Salim Group*

Salim Group, founded by Sudono Salim, started to get involved in property business in the late 70s when the group, with Ciputra group and several others groups, developed Bumi Serpong Damai new town in Tangerang. This group started their business in food industries in the 1960s followed by others industries such as cement, construction, telecommunication, and textile. By 1993, Salim group, calculated in term of gross asset, had reached the top of business group list in Indonesia (See Table 6.8) with total asset of Rp 30,4 trillion (Appr. US\$ 1.26 billion) (Department of Foreign Affairs and Trade, Australia, 1995). Salim group also expands their business to China, Singapore and Hong Kong, which include shopping centres, Industrial estates and hotels. In Indonesia, beside their investment in Bumi Serpong Damai, Salim Group has also invested in several land development projects, among others are Kapuk Naga Indah, a resort in an area of 1,700 hectares, Mandara permai, a residential project in area of 1,700 hectares (see Table 6.9).

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<sup>22</sup> Indonesian market directory 1994 reports that Ciputra development's asset value in 1991, 1992, 1993 were Rp. 502,902 million, Rp. 74,008 million and Rp 1,040,236 million respectively. (ECFIN, 1994).

**Table 6.8:**  
**Indonesia's Top Ten Business Groups (in 1993, by Gross Asset)**

	<b>Asset (Rp. Billion)</b>	<b>Activities</b>
Salim	30,403.4	Diversified (incl. property)
Sinar Mas	14,623.7	Diversified (incl. Property)
Bank Danamom	8,682.2	Finance
Gadjah Tunggal	7,500.0	Tyre Production
Astra	7,492.0	Car assembly
Lippo	7,076.6	Finance, Property
Dharmala	6,000.0	Agro Industry, Property
Barito Pasific	5,887.0	Timber, Plywood
Bimantara	4,560.0	Diversified (incl. Property)
Ongko	4,200.0	Property

Source : Pusat Data Business Indonesia, Conglomeration Indonesia, 2<sup>nd</sup> edition, Jakarta 1994, as quoted by Department of Foreign Affairs and Trade, Australia, 1995)

**Table 6.9:**  
**Project and Area of Land Hold under Salim Group in Jabotabek and its surrounding (1994)**

No	Company name	Project	Location	Area (Ha)
1	Sarana Bukit Indah	Industrial estate	Cikampek	9,100
2	Indotasei Indah	Industrial Estate	Karawang	100
3	Wisma BCA	Office building	Jakarta	2
4	Gedung Mugi	Office Building	Jakarta	1
5	Mid Palza I + II	Office Building	Jakarta	2.5
6	Wisma Indocement	Office Building	Jakarta	na
7	Central Plaza	Office Building	Jakarta	na
8	Wisma Nusantara	Office Building	Jakarta	na
9	Ario Bimo Perkasa	Office Building	Jakarta	1
10	President Hotel	Hotel	Jakarta	na
11	Radisson	Hotel	Jakarta	na
12	Bumi Serpong Damai*	New town	Tangerang	6000
13	Mandarai Permai*	Housing	Tangerang	1000
14	Puri Nirwana	Housing	Cibinong	100
15	Kapuk Naga Indah*	Housing and resort	Tangerang	3200

Note: \* Shared with other group na: not available

Source: Adapted from Pusat data Bisnis *Properti* Indonesia as quoted in *Properti* Indonesia, October 1994

### *Amcol Group*

Amcol group expands their business into property development from electrical appliances supplier, particularly as the sole distributor of Sony electronic from Japan. Some of the projects are: Permata Balaraja a residential project in an area of 200 hectares, Kemayoran new town, Kemayoran Golf Apartment and Resort Bukit Cipendawa.

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*Keris Group*

Keris group develops its business empire from a family enterprise specialised in *batik* production in the 1920s. In the 1980s Keris Group diversified its business into real estate and property, retail business, department store, footwear industry, banking and financial service (Keris Group Web Site, 1998).

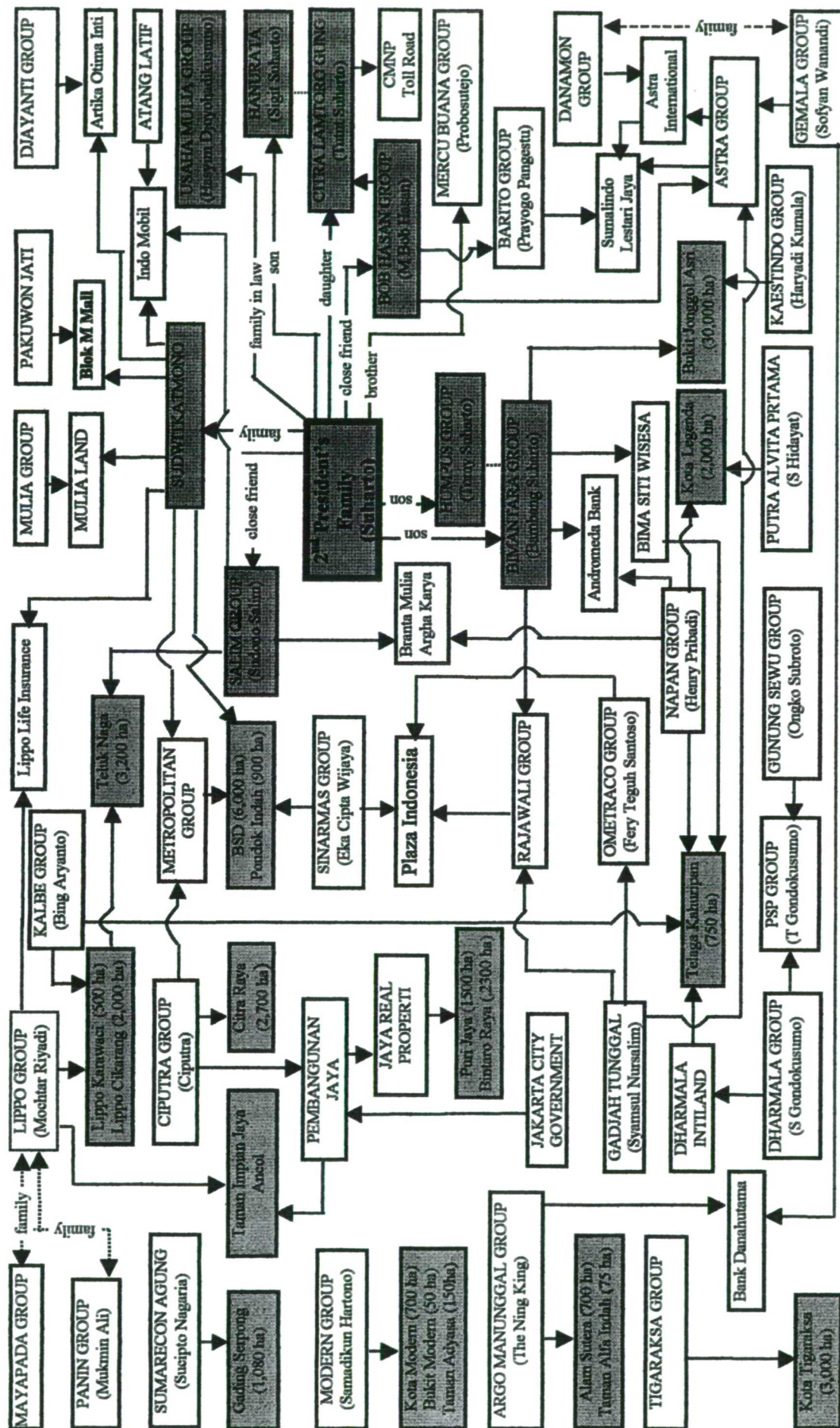
*Wijaya Karya Group*

Wijaya Karya, unlike other developers, is a Government's owned company. It was founded in 1960 as a company under the direction of Ministry of Public Works, to be responsible for providing service in the field of construction. In 1988 Wijaya Karya started to develop medium and large houses as an addition for the low-income houses they built in Perumnas land. Nowadays Wijaya Karya carries out 11 residential projects in an area between 15 to 200 hectares.

What is interesting in the picture of the real estate industry in the area is not only the fact that most of the large developers are owned by Sino-Indonesian, but also the interlinks among them. It is reported that in 1993, 204 of the top 300 conglomerates were Sino-Indonesian controlled, amounting to 80.1 per cent by asset (Ministry of Foreign Affairs and Trade, Australia, 1995). The interlinks among the business groups occur through cross-shareholding and shared directors, joint ventures among the conglomerates and family links such as marriages among the major business families' members (See Figure 6.7). These interlinks have turned potential competitors into colleagues, allowing the market share of individual companies to be maintained (Ministry of Foreign Affairs and Trade, Australia, 1995).



**Figure 6. 7:**  
**Indonesian Group Connections**





The figure does not only show the interlinks among the companies, but also shows that almost all companies are connected to the ex-President Soeharto's family. In a country where corruption and the centralised power of authority are eminent,<sup>23</sup> the closeness to the first family opens the possibility to influence the decision making in planning process. Moreover, considering that some of the names were and are members of the ruling party, Golkar,<sup>24</sup> as well as members of the People's Consultative Assembly, the interlinks also opens for political intervention in the overall land development process. The interlinks among the companies has also created an oligopolistic type of land and housing market where in the one hand raw land supply is demanded only by few companies, and in the other hand the ripe land and housing market are supplied by few companies.

### Typology of Developer

Having discussed the picture of the real estate industry, a typology of the developer might be constructed. Haila (1991) in an attempt to explain the special characteristics of land (i.e.: land as land as commodity or land as capital) constructed a typology of investments in land. Haila's typology is based on two principal dimensions: i.e. the purpose of investment (use or exchange<sup>25</sup>) and the time horizon of investment (present or future). To characterise the different four types that are produced, Haila labelled the investments in land as '*bazaar*'; '*jungle*'; '*organism*' and '*circus*'.<sup>26</sup>

Developers in the study area basically fit into the typology of investment and

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<sup>23</sup> Server (1996) argues that "... *Corruption in Indonesia has become an element of daily life, with the phenomena of nepotism in obtaining licenses and career post, commission of contract, the premium to pay for the breach of law, the payment of extra 'administrative fees' to speed up administrative steps and the provision of services...*" See also Winters (1992).

<sup>24</sup> Tutut Suharto was one of the leaders in Golkar, Bambang Suharto was one of the treasurers of Golkar, Tomy Suharto was a member of Golkar. Other names such as: Probosutejo and Ciputra were also active members of Golkar. All of them were also members of People's Consultative Assembly.

<sup>25</sup> See discussion on the use value and exchange value in Chapter II.

<sup>26</sup> See Chapter II.

property developed by Haila. However, while Haila explains the four types in Helsinki as taking place sequentially, in *Jabotabek* they basically occur in the same period. This is because the history of investment in land is still very young compared to most cities in developed countries, particularly Finland. Developers in the study area definitely aimed their investments at exchange value, therefore only this group will be discussed here. Based on Haila's typology, but with the added characteristics, developers in the study area can be grouped as *Foot-holder developers* and *Network-extender developers*<sup>27</sup> (See Table 6.10).

1. *Foot-holders*: Those who are involved in land development industry after seeing other developers' fortunes rise (particularly the *Network-extender*). For some of the developers in the study area, investment in land is merely seen as one of alternatives. They do not intend to tie up the money for a long time, as this will burden them with the cost of money. However, if their investment in the industry succeeds, they might step further in.
2. *Network-extenders*: those who involve themselves in the land development industry and have matured into investors. These developers view land as financial asset, and will hold and manage the development as long term investment. In order to do so they have to establish a network of all actors in land development industry.

### *Foot-holders*

Two types of *Foot-holder* developer can be distinguished in the study area:

#### *Small Foot-holder Developer*

Quick yield is the most important concern of this type of developer. In order to achieve the goal, the firm (or individual) only develops small size houses and build small number of low and medium price houses (in some cases exclusive houses).

<sup>27</sup> These names are inspired by the works of Turner (1968) and Sastrasasmita and Amin (1990) on housing development.

**Table 6.10:**  
**Typology of Developers in Jabotabek Area**

	Time horizon of investment					
	For Present Value			For Future Value		
	Foot-holder			Network -extender		
	Small	Medium	Small	Medium	Large	
<b>Investment Characteristics</b>						
Source of Capital	Family or in a Form of Land	Surplus from Other Investment	Borrowed money from Banks	Borrowed money from Banks or Syndication Market Capitalisation Money Laundering	Borrowed money from banks or syndication Market Capitalisation Money Laundering	
Purpose of Investment	Annual Rent	Annual Rent	Capital Gain	Capital Gain	Capital Gain	
Function of Investment	To move accumulated capital to produce income	To move accumulated capital to produce income	To capture dynamic capital growth	To capture dynamic capital growth	To capture dynamic capital growth	
<b>Development Characteristics</b>						
Area Developed	Up to 2 hectares	Less than 15 hectares	15 - 200 hectares	200 - 500 hectares	More than 500 hectare	
Housing Produced	10 - 30 units per month	Up to 1000 units per year	Up to 5000 units per year	900 - 1000 units per year	Up 1000 per year	
Type of Housing	RS, RSS, medium size and large houses	Medium and large size houses	Medium and large size houses	Medium and large houses in good quality	Mix types	
Number of Project	3-5 project/year	3 project s per year	1	2	More than 2	
<b>Company Characteristics</b>						
Experience in Years	5-10	Up to 15	15	15	20 years	
Number of Employee	Less than 50	50 to 100	100 - 150	150 - 250	More than 250	

Source: Adapted from Haila (1991)

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The size of the area is less than 5 hectares. This type of developer would build up to 10 - 50 houses in 3 months and sell within a month for a small profit-margin which however could come continually. Once the developer finishes with one project, he/she would start another project, perhaps in the adjacent area. As their main purpose of investment is annual rent, their average (mean) annual project is bigger than that of the developers who possess larger areas.

Their capital might be in a form of family ownership of a land parcel, and the foreknowledge of the Government's plan to develop infrastructure or other construction in the area. The investment is primarily aimed at gaining profit at the present value, thus strategies of a pre-sell marketing<sup>28</sup> or cash payment for a ready-built house are applied to ensure the existence of buyers as well as the funds for construction (*Properti Indonesia*, November 1995). This type of developer does not always build more house units when the profit margin is high, and as such this developer intends to maintain their cash flow, so that there is also still a possibility to build more house units even when the profit margin is low.<sup>29</sup> This type of developer is sometimes undercapitalised. Therefore, this type of developer is vulnerable to the changing economic condition. If by some other reasons the price of building material increases, they could face bankruptcy.<sup>30</sup>

A prominent Indonesian property magazine (*Properti Indonesia*, November 1995) reported that there were individuals or small firms who built up to 27 house units in an area for quick selling. The price of the house was considered cheap: Rp. 50 million (Appr. US\$ 2,500) for a 78 square meters house in 1995. Some developers, however, produced exclusive houses worth of Rp. 850 million

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<sup>28</sup> See Chapter VII.

<sup>29</sup> Mohamad Hidayat, former president of Real Estate Indonesia said that "They are quite a number of developers who are in the land development business only to earn capital gain within two or three years, which is possible in boom period. But to do this he or she neglects the service and quality of the product." (*Properti Indonesia*, September 1996: 19).

<sup>30</sup> As reported by an important economic magazine, many small, undercapitalised developers who were involved in property business without knowing the tricks of the business had ended in bankruptcy (*Warta Ekonomi*, July 1997).

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per unit (Appr. US\$ 340,000) and sold in cash. They did so because to these developers the function of investment inland is to move their accumulated capital to better use. Examples of projects carried out by of this type of developer are 'Perumahan Pesona Exclusive' in Lenteng Agung, Jakarta and 'Fountain Park View', in Pondok Labu, Jakarta.

#### *Medium Foot-holder Developer*

Unlike the first category of *foot-holder* developer, the medium *foot-holder* develops bigger land areas and produces more housing units. This type of developer generally produces medium and large type houses up to around 1000 units annually. Sometimes they also build low-cost houses as required by the regulation. The size of the area is generally less than 15 hectares to avoid the cumbersome approval process from the Governor.<sup>31</sup> They generally take advantage of other developers' infrastructure investments, for example: they would develop land which are close to the construction of road and shopping centre from *Network-extender* developers. They also benefit from the increasing price of land and housing caused by the development of the *Network-extender* developers.

Examples of this type of developer are PT Puriayu Lestari who developed 'Bumi Executive' on a 14 hectares of land in Pamulang, Tangerang, and Tatawira Sakti a company owned by a film star who developed Puri Marisa on a 15 hectares site in Ciputat, Jakarta

#### *Network-extender*

A developer of this type is actually a speculator who uses the development market to gain profit for self-interest. This developer would also try to manipulate the market even by influencing the making of statutory plan. This

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<sup>31</sup> Ministerial Decree No. 3 of 1987 stipulates that the approval of Location Permit for residential development is to be given by different level of institution depending on the area. For area of less than 15 hectares, the approval is granted by *Bupati/Walikota*; less than 200 is granted by Governor, and more than 200 is granted by Ministry of Home Affair. See Chapter IV.

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developer views land as a financial asset; the main object of speculation is the capitalised value of land. Therefore accumulation of land is practised for the purpose of land banking as can be seen from the proportion of the area developed to the area secured under Location Permit.<sup>32</sup>

The source of capital is borrowed money from different sources, generally banks, either national or international. The developer of this type applies sophisticated network for accumulating capital; bank syndication and capital market are among the sources of money. Armand Amiarso, a financial co-ordinator from International Investment Syndicate Group of Companies, indicated<sup>33</sup> that there was also the possibility that this type of developer had been using illegal money and practising money laundering.

Most *Network-extender* developers used short-term loan from foreign fund providers (usually in US Dollars) without hedging, as hedging would make the cost of money higher.<sup>34</sup> Such loans would give advantages as long as the borrowed funds could generate a return greater than the borrowing cost. The problem arises when loans come to mature and at the same time the Rupiah substantially depreciates to the Dollars.<sup>35</sup>

There are three types of *Network-extender* developer according to the size of the area developed and the number of projects: small, medium and large

#### *Small Network-extender Developer*

A developer of this type generally possesses 50-200 hectares land and produces up to 5,000 house units annually. This developer is highly speculative and seeks

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<sup>32</sup> See discussion on land banking in this Chapter.

<sup>33</sup> Author's interview with Armand Armiaso, a financial co-ordinator, in his office, on 3 December 1996.

<sup>34</sup> Author's interview with Panangian Simanungkalit in his office, on 24 October 1996

<sup>35</sup> The Rupiah did depreciate substantially in 1997 following this investigation.

the increment of increase in land value in the short term. In a boom period it would build medium and large house units; small house units were produced merely to satisfy the regulation.

Small *Network-extender* developers usually would not enter the money market; they still rely on bank loan for the land work and mortgage finance for housing construction. They still use a pre-selling strategy to ensure the buyers for their product. Small *Network-extender* developers usually employs up to 100 persons and hires domestic consultants to design their residential plan. An example of this is PT Wijaya Karya, a Government's owned company which built 'Taman Sari Pesona Bali' on 50 hectares of land in South Jakarta.

#### *Medium Network-extender Developer*

A developer of this type possesses 200 - 700 hectares and produces up to 900 houses per year. This developer would build medium and large houses, usually in good quality, yet these are on average smaller than those of the *Small Network-extenders*. The investment is for medium to long term. The source of capital is bank loan and money obtained from the stock market. There is also possibility that this type of developer uses black money for money laundering.

Image is the main selling asset; therefore, a developer of this type will try hard to build its image by investing more on infrastructure and advertisement. To build a good image, generally the developer sets up an office in a prestigious office building and hires a well-known foreign consultant to design the residential project. Because investment is for a long period, it generally also applies an estate management strategy.<sup>36</sup> Therefore, a developer of this type could employ up to 250 persons. Alongside pre-sell marketing strategy, this developer also uses direct selling and multi-level selling strategy.<sup>37</sup> An example of this type of developer is PT Modernland, which developed '*Kota Modern*' (Modern City),

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<sup>36</sup> To be discussed in Chapter VII.

<sup>37</sup> To be discussed in Chapter VII.

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with luxurious houses on a 500 hectares land in *Kabupaten* Tangerang.

### *Large Network-extender Developers*

A developer of this type is a calculating entrepreneur and has more than 20 years of experience in land development. This type builds up to 1,000 houses of all sizes annually on more than 500 hectares of land. The large *Network-extender* employs more than 250 persons to operate their projects; ranging from high-paid managers to low-paid security and cleaning service people. The developer makes a long time investment using domestic as well as foreign syndication banks as the sources of investment. Domestic as well as foreign stock exchanges are also the sources of investment for this type of developer. As in the case of the *Medium Network-extender*, there are also possibilities that this type of developer practices money laundering.

A good image is also an important asset for this type of developer. Sometimes idealistic planning is implemented. The developer also hires well-known foreign consultants for some of the projects. To build the image, the developer also invests highly on the basic physical infrastructure. As the investment is for a long time, estate management is applied to ensure the good performance of residential projects. In addition to a pre-sell marketing strategy, the developer stocks the houses for direct selling. To broaden the market, this large *Network-extender* developer also forms a joint venture with both domestic and international estate agents. Examples of this type of developer are developers under Si Pengembang Group which develop several residential areas of more than 500 hectares in *Kabupaten* Tangerang (see Table 5.8 in page 155).

### **A Picture of the Buyers**

The previous section looked at the typology of the developers, hence, the supply side. This section looks at the buyers, the demand side of the houses produced in the study area. The aim of this section is to answer the questions about the profiles of the buyers of the formal housing production in the study area, and



their reasons of buying the houses.

The numbers of households interviewed were 232, Systematically selected from 15 residential projects in Tangerang in the sizes of between 80 to 6,000 hectares.<sup>38</sup> The survey reveals that the buyers in the study area are mostly in mid thirties, 55 per cent of them are between 30 and 40 year of age. 13 per cent are between 25 and 30 year (see Table 6.11). The average family size of the household in the study area is 4.3 (median and mode are 4). The figure is the same with that of the Province of West Java (4.3) but smaller than that of Jakarta (4.7) and that of Indonesia (4.5) (BPS, 1994).

**Table 6.11:**  
**Age Distribution of the Buyers (1996)**

Age	Number	%	Cum %
25 – 30	31	13.4	13.4
30 - 35	69	29.7	43.1
35 - 40	57	24.6	67.7
40 - 45	31	13.4	81.0
45 - 50	24	10.3	91.4
50 - 55	10	4.3	95.7
55 - 60	6	2.6	98.3
60 - 65	2	0.9	99.1
>65	2	0.9	100
<b>Total</b>	<b>232</b>	<b>100</b>	

Source: Households survey 1996

Most of them are highly educated, 59 per cent of them are university graduates (see Table 6.12). This figure is far above the average education attainment as university graduate in Jakarta, which is only 2.89 per cent in 1993, and certainly that of West Java Province, which is only 0.67 per cent in 1993 (BPS 1994). Only 10 per cent of the respondents claimed that they are self-educated. Most of the buyers (64 per cent) work in the private sector, only 34 per cent work as civil servants (see Table 6.13).

<sup>38</sup> This is the proposed area to be developed by the developer. The actual area developed is smaller.

**Table 6.12:**  
**Education Attainment**

Education	Number	%	Cum %
Master or above	17	7.3	7.3
Undergraduate	118	50.9	59
High school	71	30.6	90
Self Educated	23	9.9	100
Missing	3	1.3	
<b>Total</b>	<b>232</b>	<b>100</b>	

Source: Households survey 1996

**Table 6.13:**  
**Types Employment of the Buyers**

Type of work	Number	%	Cum %
Private	148	63.8	64.4
Unemployed	2	0.9	65.5
Civil service	79	34.1	100
na	3	1.3	
<b>Total</b>	<b>232</b>	<b>100</b>	

Source: Households survey 1996

The annual income of the buyers spreads out from Rp 1.8 million (Appr. US\$ 432) to Rp. 250 million (Appr. US\$ 100,000) (see Table 6.14). The average income of the buyers is Rp 37.4 million per year (Appr. US\$ 14,960),<sup>39</sup> which accounts to Rp. 3.1 million per month (Appr. US\$ 1246). The monthly average income of the buyers is far over the average income of employers in Jakarta (Rp. 255,463) and in the Province of West Java (Rp. 151,618).<sup>40</sup> The mode monthly income (Rp. 1 million) of the buyers is also far above the monthly income of all urban household in Indonesia (Rp. 234,000).<sup>41</sup>

<sup>39</sup> The median Rp. 24 million and mode Rp. 12 million.

<sup>40</sup> These figures are from BPS (1994). Inflation rate is not calculated.

<sup>41</sup> A housing study in Indonesia (Struyk, Hoffman and Katsura, 1990) estimated that in 1988 the median of all urban household monthly income was Rp 150,000. With the assumption that the inflation rate is 0.9 per cent annually, in 1996 the median monthly income would be Rp. 234,000.

**Table 6.14:**  
**Annual Income (1996)**

<b>Annual Income/year (x million Rupiah)</b>	<b>Number</b>	<b>%</b>	<b>Cum %</b>
Less than 3	9	3.9	4.5
3 - 12	66	28.4	37.5
12 - 24	32	13.8	53.5
24 - 36	29	12.5	68.0
36 - 48	9	3.9	72.5
48 - 60	17	7.3	81.0
60 - 72	38	16.4	100
NA	32	13.8	
<b>total</b>	<b>232</b>	<b>100</b>	

**Note** : NA: No answer

**Source** : Households survey 1996

The descriptions of age, family-size, education, jobs and annual earning of these buyers imply that they are mostly young professionals working in private sector. The evidences also infer that the consumers of the housing production in the area are the middle and high-income segment of the people.

Looking into the buyers' places of job, the survey revealed that 60 per cent of them work in Jakarta (see Table 6.15) despite the fact that their residential areas are in *Kabupaten* Tangerang. The fact that their jobs are mostly in Jakarta supports the evidence that most of the respondents (41 per cent) need 120 minutes to reach their working place (the mean is 69 minutes, median is 60 minutes). In other words most of the buyers need four hours to go to and back from their job place. This journey time is considered long compared to the average commuting time in Los Angeles, which is only 26.38 minutes (Small, 1993; Wachs et al., 1993).

**Table 6.15:**  
**Locations of Jobs**

Location	Number	%	Cum %
Central Jakarta	50	21.6	22.8
North Jakarta	34	14.7	38.4
West Jakarta	20	8.6	47.5
South Jakarta	23	9.9	58.0
East Jakarta	5	2.2	60.3
Kabupaten Bekasi	3	1.3	61.6
Kabupaten	64	6.0	90.9
Kotamadya	14	6.4	97.3
Kabupaten Bogor	1	0.4	97.7
Krawang	2	0.9	98.6
Serang	1	0.4	99.1
Cilegon	1	0.4	99.5
Merak	1	0.4	100
NA	13	5.6	
<b>Total</b>	<b>232</b>	<b>100</b>	

Note : NA: No answer

See Figure 5.3 in page137

Source : Households survey 1996

The transportation mode used to go to their work place is mostly private car (65 per cent), only 19 per cent respondents use public bus (see Table 6.16). The use of private car is supported by the evidence that only 29 per cent of the buyers interviewed claimed of not owning any car, 56 per cent said that they own one car and 14 per cent of the respondents own 2 cars (see Table 6.17). This car ownership rate is higher than the average car ownership in Jakarta, which is only 4.4 per cent. The number is also even higher if it is compared to London (31.8 per cent) or New York (21.8 per cent) and Stuttgart (44.2 per cent).<sup>42</sup> The car is important because most of their journey from home uses private car as the main mode of transport. They use car for their daily shopping, going to the shopping centre and working as well. This fact, arguably, implies the bad condition of public transportation system in the area.

<sup>42</sup> Information on the car ownership in Jakarta, London New York and Stuttgart is quoted from Armstrong-Wright (1993).

**Table 6.16:**  
**Transport Mode Used to Work Place**

Transport Mode	Number	%	Cum %
Private Car	150	64.7	64.9
Public Bus	45	19.4	84.4
Taxi	2	9	88.3
Motorbike	8	3.4	88.7
Walking	2	0.9	89.6
Angkot*	2	0.9	90.5
With Friends	1	0.4	90.9
Ojek**	3	1.3	92.2
Company's bus	10	4.3	96.5
Company's car	3	1.3	97.8
Train	5	2.2	99.6
NA	1	0.4	100
<b>Total</b>	<b>232</b>	<b>100</b>	

Note : \* Angkot is a small public transportation mode. The vehicle can carry up to 15 passengers; \*\* Ojek is an informal public transportation mode. It is a motorbike, on which the driver can only carry one passenger.

NA: No answer

Source: Households survey 1996

**Table 6.17:**  
**Car Ownership**

Number of car	number	%	Cum %
none	68	29.3	29.3
1 car	130	56.0	85.3
2 cars	33	14.3	99.6
3 cars	1	0.4	100
<b>Total</b>	<b>232</b>	<b>100</b>	

Source: Households survey 1996

The buyers are mostly young professionals who work in Jakarta. Why did they buy houses in *Kabupaten* Tangerang? The answers to the question of the most influential factor in deciding to buy a house in the area indicate the importance of house price; most of the respondents stated the affordable price as the most important factor influencing their decision to buy a house in the area (see Table 6.18 column 1).

**Table 6.18:**  
**Important Factors Influencing Buyer's Decision to Buy a House**  
**in Jabotabek Area**

Factor	The most (1)	Second most (2)	Third most (3)	Total answer (4)	% sample (5)	Value (6)	Rank (7)
Availability of Golf Field	2	0	2	4	1.72	8	12
Proximity to Good School	18	24	15	57	24.57	117	5
Availability of Informal Traders	0	2	8	10	4.31	12	11
Proximity to traditional market	1	8	7	16	6.90	26	10
Availability of Good Park	7	14	19	40	17.24	68	9
Affordable House Price	89	37	18	144	62.07	359	1
Proximity to Work Place	36	31	17	84	36.21	187	2
Proximity to Shopping Centre	13	30	33	76	32.76	132	4
Good Accessibility to City Centre	21	36	30	87	37.50	165	3
Good Housing Security	6	19	32	57	24.57	88	7
Proximity to families/friends	8	8	14	30	12.93	54	10
Other	21	10	16	47	20.26	99	6
NA	10	13	21	44	18.97	77	8
<b>Total</b>	<b>232</b>	<b>232</b>	<b>232</b>	<b>696</b>			

Note: (1) the most important factor; (2) the second important factor; (3) the third important factor; (4) = (1) + (2) + (3); (5) = (4)/232 x 100%; (6) = (1) x 5 + (2) x 2 + (3) x 1

NA : No answer

Source: Households survey 1996

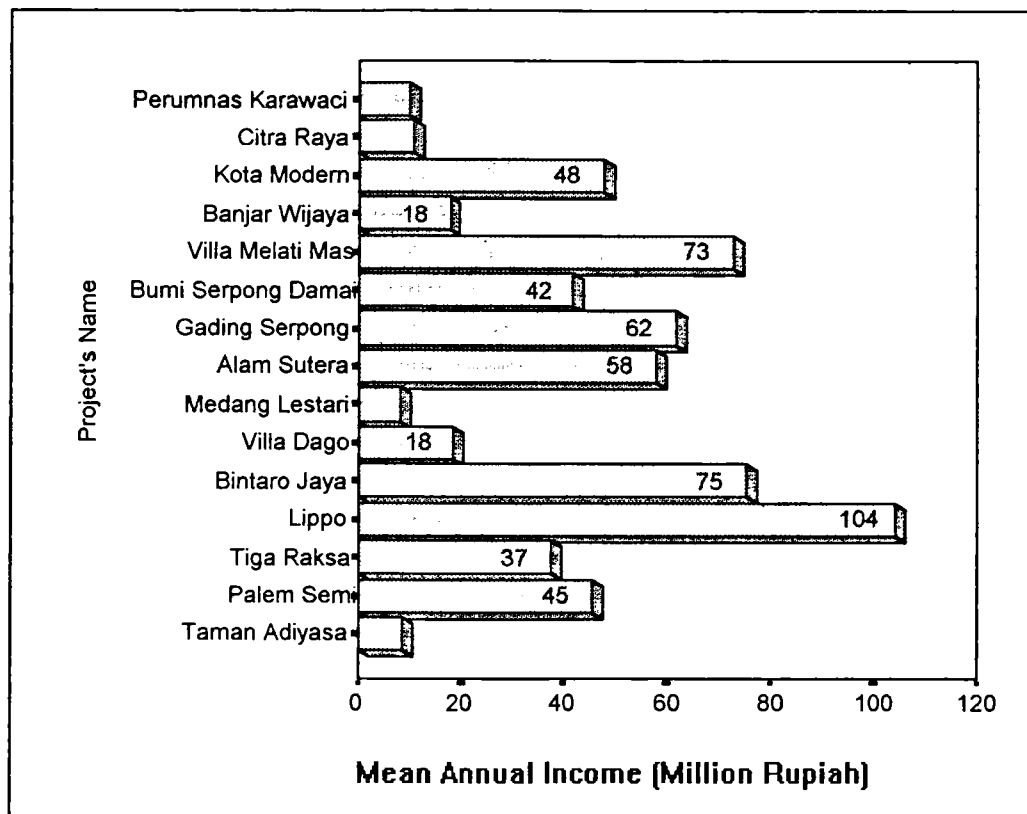
If values are attached to these influential factors (i.e. 3 for the most important factor, 2 for the second most important factor and 1 for the third most important factor), a rank of the factors influencing the decision to buy a house in the area can be constructed, as seen in Table 6.18 column 7. Affordable house price, proximity to working place, good accessibility to city centre, proximity to shopping centre and proximity to good school are the five most influential factors.<sup>43</sup>

But, do the projects they chose provide what they really need? These factors should be looked at carefully. Affordable house price is certainly dependent on the buyers' annual income. The house prices in the area vary from Rp. 11.75 million (Appr. US\$ 4,700) in Taman Adyasa to Rp. 2 billion (Appr. US\$

<sup>43</sup> As comparison, a housing preference study in Istanbul (Dokmeci et al., 1996) reveals that in general, proximity to relatives, a clean and quite neighbourhood and a stable environment are the common factors influencing the decision to buy a house.

800,000) in Lippo Karawaci.<sup>44</sup> This house price variation is also reflected in the buyers' annual income variation of each project as shown in Figure 6.8. The chart shows that the average annual household income in Taman Adyasa is Rp 9 million, one of the lowest average income in the 15 projects observed, while the average buyers' annual income in Lippo Karawaci (Rp 104 million) is the highest. This evidence implies that the house prices are only affordable for the middle and high-income segment of the people.

**Figure 6.8:**  
**Buyers' Annual Income by Project**



Source: Households survey 1996

Proximity to working place and good accessibility to city centre are factors that should be looked at cautiously. The fact that most of the respondents need two hours by private car to go to their working place implies that their working place is not closely situated to their housing areas. In term of geographical distance,

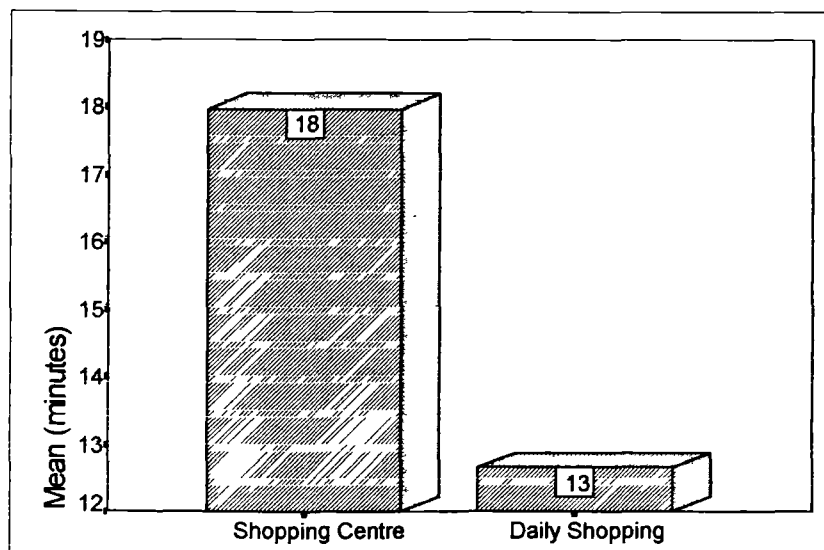
<sup>44</sup>

The prices are quoted from the leaflet of the two projects, printed in September 1996.

the residential projects observed have an average distance of 25 km (median 22.5 km, mode 23 km) to the National Monument, which is assumed as the city centre. This distance, however, can not be reached within 60 minutes in peak hours.

The importance of proximity to shopping centre and to good school is supported by the evidence that the respondents, in average, only need 13 minutes to go to do their daily shopping and 18 minutes to go to shopping centre<sup>45</sup>, whereas the average journey times to nursery and primary schools are 13 and 16 minutes respectively (see Figure 6.9 and 6.10). These short journey times are made possible because in most of the projects, the developers provide shopping centres and schools, especially nursery and primary schools. But how do they go to the shopping centre and schools? Most of them use private car for daily shopping (40.5 per cent); for shopping at shopping centre (64.7 per cent) and for bringing children to school (24.6 per cent) (see Table 6.19).

**Figure 6.9:**  
**Average Travel Time to Shopping Places**

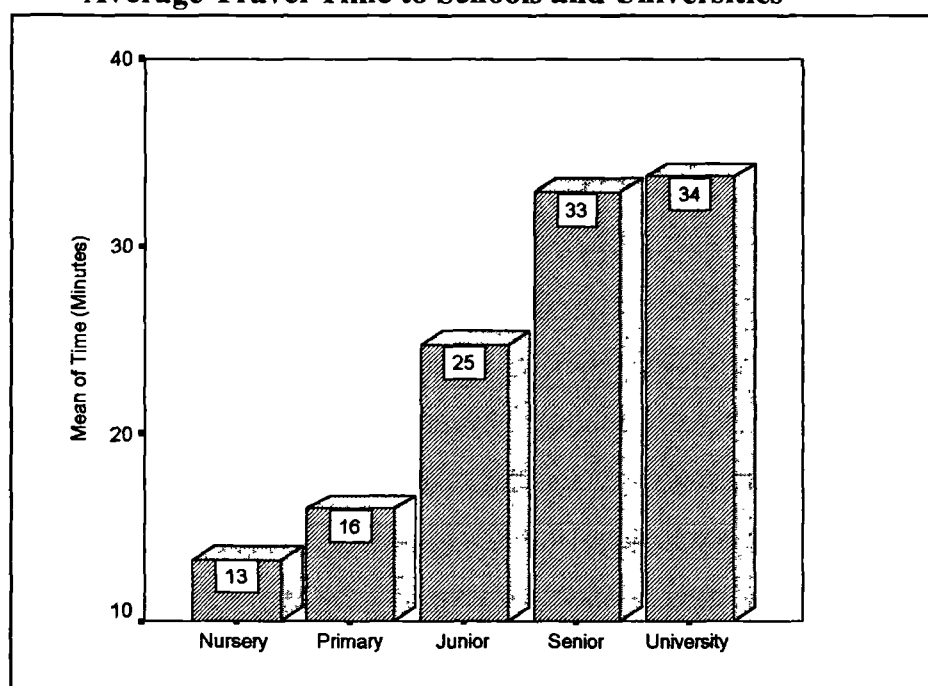


Source: Households Survey 1996

<sup>45</sup> Shopping centre in this context is a concentration of big shops, which sell secondary and tertiary goods, and is also considered as a place for leisure, whereas daily shopping is meant only for the daily needs of primary goods.



**Figure 6.10:**  
Average Travel Time to Schools and Universities



Source: Households survey 1996

**Table 6.19:**  
Transport Mode Used for Shopping and Going to School

Transport Mode	For Daily Shopping		To Shopping Centre		To Children's Schools	
	No	%	No	%	No	%
Private Car	94	40.5	150	64.7	57	24.6
Public Bus	38	16.4	42	18.1	44	19.0
Taxi	9	3.9	-	-	-	-
Motorbike	72	31.0	7	3.0	3	1.9
Walking	-	-	12	5.2	16	6.9
Angkot <sup>a</sup>	-	-	10	4.3	4	1.7
Ojek <sup>b</sup>	-	-	2	0.9	-	-
Becak (Tricycle)	-	-	4	1.7	1	0.4
Train	-	-	3	1.3	-	-
Collective	-	-	-	-	28	12.1
School Bus	-	-	-	-	2	0.9
Bike	-	-	-	-	2	0.9
NA	19	8.2	2	.9	75	32.3
<b>Total</b>	<b>232</b>	<b>100</b>	<b>232</b>	<b>100</b>	<b>232</b>	<b>100</b>

Note : (a) *Angkot* is a small public transportation mode. The vehicle could carry up to 15 passengers; (b) *Ojek* is an informal public transportation mode. It is a motor bike, which only carry one passenger; (c) Some children in the same area sharing to hire a car for daily transportation

NA: No answer

Source: Households survey 1996

What factors are considered as less important in deciding to buy a house? The availability of Golf Field and proximity to relatives/friends are the least important factors (see Table 6.20). Some developers in the area built golf courses in their projects to create a high-class image, however, in the buyers' view this facility is not important.

Are the buyers satisfied with their houses? The answers are striking: only 7 per cent of the respondents answered that they are satisfied with the house they bought. However, most of the respondents (52 per cent) have no complaint for the condition of the house. This figure is not unusual because expressing complaint is still uncommon for Indonesian people unless the problems are exceptionally serious. Therefore the number of the remaining respondents who do have complaints (41 per cent) is considered very high. From these 41 per cent respondents, 16 per cent are not satisfied with the house construction, and 14 per cent with the lack of public facilities in their residential area (see Table 6.21)

**Table 6.20:**  
**The Least Important Factors for Buying a House**

Factor	First least (1)	%	Second least (2)	%	Value (3)	Rank (4)
Availability of Golf Field	145	62.5	24	10.4	459	1
Proximity to Good School	3	1.2	5	2.2	14	
Availability of Informal Traders	7	3	29	12.5	50	
Proximity to Traditional Market	11	4.7	34	14.6	67	4
Availability of Good park	5	2.2	25	10.8	40	
Affordable House Price	2	0.9	6	2.6	12	
Proximity to Work Place	2	0.9	10	4.3	16	
Proximity to Shopping Centre	2	0.9	7	3	13	
Good Accessibility to City Centre	6	2.6	6	2.6	24	
Good Housing Security	4	1.7	15	6.6	27	
Proximity to Relatives/Friends	24	10.3	34	14.6	106	2
Other	2	0.9	3	1.2	9	
NA	19	8.2	34	14.6	91	3
Total	232	100	232	100		

Note: (1) The least important factor; (2) second least important factor;  
(3) = (1) x 3 + (2) x 1;

NA: No answer

Source: Households survey 1996

**Table 6.21:**  
**Buyers' Complaints**

	Number	%	Cum %
Poor House Constructions (Not as Specified)	37	15.9	16
Low Quality of Piped Water	11	4.7	20.8
Unhealthy Environment	2	0.9	21.6
Lack of Public Facilities	32	13.8	35.5
Flood, Poor Drainage and Sewerage	4	1.7	37.2
Poor Accessibility to Public Transport/ Traffic Jam	7	3	40.3
Lack of Housing Security	2	0.9	41.1
No complaint	120	51.9	93.1
Satisfied	16	6.9	100
NA	1	0.4	
<b>Total</b>	<b>232</b>	<b>100</b>	

Note: NA: No answer

Source: Households interview 1996

### Conclusion

This chapter deals with developers and buyers in *Jabotabek*. It has revealed the important features of the developers and the buyers. Developers in *Jabotabek* basically work together in a shareholdership or are interconnected through family relationships. From 60 developers in *Kabupaten Tangerang*, more than half actually belong to a few of developers, who together have secured around 50 per cent of the residential market in *Kabupaten Tangerang*. The developers in *Jabotabek* are also related to the ex-first family of Indonesia. This closeness has given them the possibilities to influence any policy and regulation concerning land development in the area.

Two broad types of developer can be distinguished: *Foot-holder* developer who is mainly concerned with the present gain in their investment and *Network-extender* developer who is mainly concerned with the future gain for their investment. Each type of developer develops their own strategy in searching for funds and investing them in land development.

This chapter also deals with the characteristics of the buyers. It reveals that the majority of the buyers of the houses produced by developers in *Kabupaten Tangerang* are young professionals who work in the private sector. Judging from their annual earning, the buyers can be classified into the middle and high-

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income segment of the people. Private car is the main mode of transport to reach their work place, to shop and bring children to schools, and that is why each of more than 70 per cent of the buyers own at least one car.

It also reveals that the buyers chose the house in the area because the price was considered as affordable and thought that the location is within two hour time distance from their working place. It seems that the houses are not as good as they expected, only few buyers are satisfied with the house they bought. Most of the unsatisfied buyers complained that the house constructions are not as specified in the advertisements.

## Chapter VII

### The Developers' Behaviour

#### Introduction

The main objective of this study is to assess the behaviour of developers, particularly their response to land price, distance to city centre and the availability of infrastructure. It is hypothesised that land price has been the most important factor for locational decision for developers in the study area.

The previous chapter looked at the picture of the real estate industry, the profile of the developers and the buyers in the study area. This chapter examines the behaviour of the developers, particularly on how they make the decision to buy land and to locate their residential projects. The information is basically gathered from interviews to a sample of developers in *Kabupaten* Tangerang, Jakarta, *Kabupaten* Bogor and *Kabupaten* Bekasi. Other secondary sources were mainly Property magazines and National Land Agency reports on Location Permit. The sample consisted of 27 developers (directors, vice director or general manager of the companies) who held residential projects in *Jabotabek* which consisted of 21 projects in Tangerang (constitutes of 54 per cent of total large developers in the *Kabupaten*), 2 projects in Jakarta, 2 projects in Bekasi and 2 projects in Bogor. In addition, interviews were also conducted to Ciputra, owner of several new towns and property development projects; Panangian Simanungkalit, a prominent analyst; Pingky Pangestu, owner of several property projects and an analyst; Sudarsono, assistant to the Minister of Public Housing; and Armand Amiarso, vice co-ordinator of an International Investment Syndicate.

This chapter begins with the description of development process in the area, it then explains the factors influencing the decision to buy land, and the implication on the supply of land for residential purposes in the area. A conclusion is drawn at the end of this chapter.

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**Land Development Process**

The residential land development process is complex and involves many actors. This is partly because the objectives, the opportunities and the modes of operations of each developer are not the same. The unsound legal environment for land development in *Jabotabek*<sup>1</sup> also contributes to the diversity of the development process in the area. Scholars have tried to construct models to facilitate the study and to understand the land development process (Kaiser and Weiss, 1969; 1970; Evans, 1987; Drewett, 1973; Bryant et al., 1982; Barrett et al., 1978; Massey and Catalano, 1978, Ambrose, 1986). However their perspectives vary. Healey (1991) grouped the approaches into Equilibrium Model, Event-sequence Model, Agency Model and Structure Model.<sup>2</sup>

Adopting structure and agency models as suggested by Ambrose (1986), the model of formal land development process in the area can be seen in Figure 7.1. The model shows that residential land development is closely linked to finance industry and the Government. The Government provides regulations and policies to the housing industry<sup>3</sup> and finance industry. Finance industry supports the housing industry with the needed capital. The growth of the housing industry, in return, will further develop the finance industry, particularly by selling the portfolio in money market.

It should be noted here that, together with the formal process as pictured by the model, the informal processes also take place, particularly in the housing industry and in the relationships between the housing industry and the government. For this industry, the informal process, through lobbying is, in some cases, more important than the formal process itself.

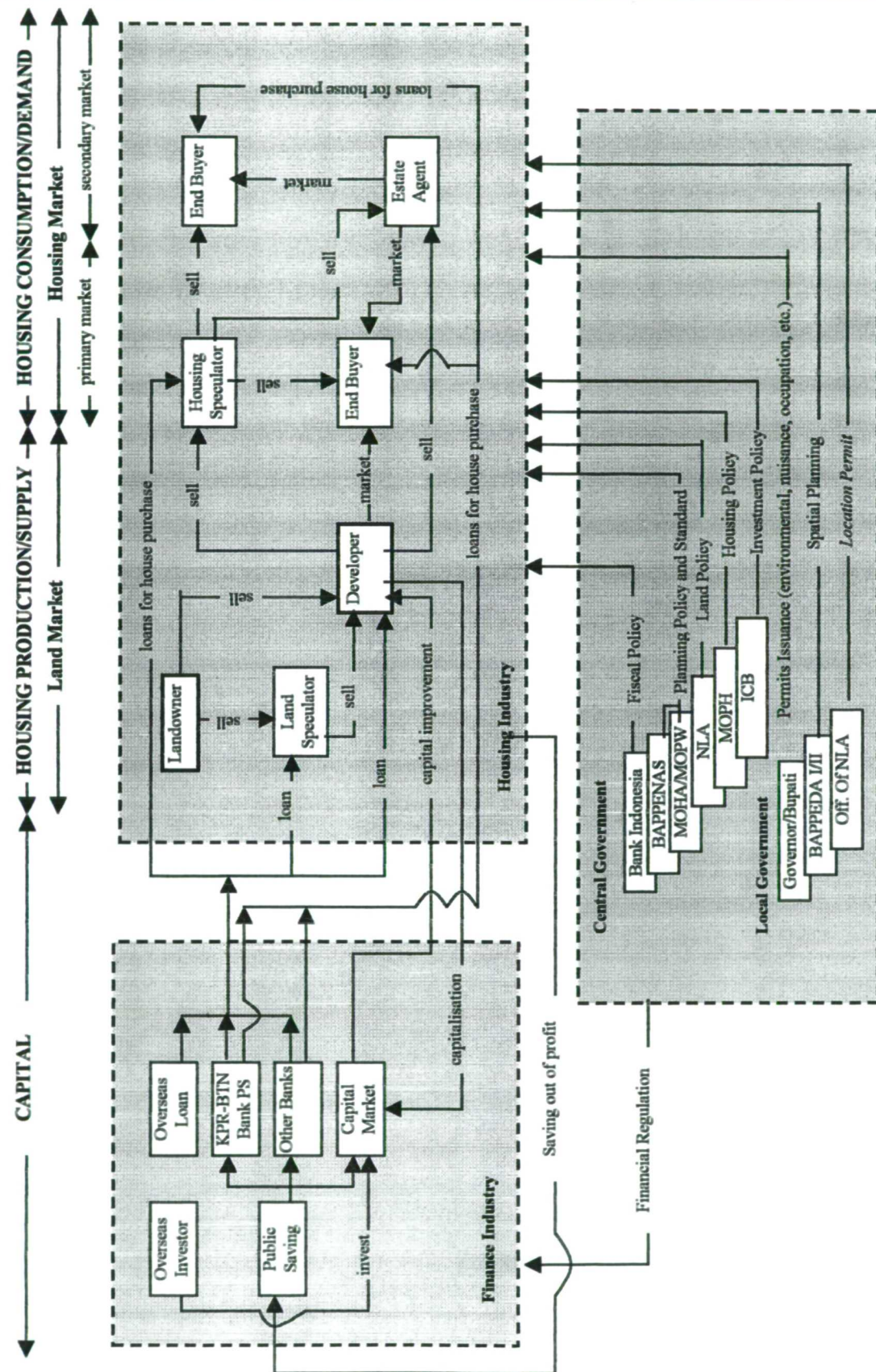
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<sup>1</sup> As discussed in Chapter IV the legal environment for land development: the land right system, the Location Permit system and the planning system, still presents a large space for fraudulence.

<sup>2</sup> See Chapter II for the discussion of the development models.

<sup>3</sup> See Chapter IV.

**Figure 7.1:**  
**Formal Land and Development Process in Indonesia**



Note: BAPPENAS: National Development Planning Board; MOHA: Ministry of Home Affairs; MOPW: Ministry of Public Works; NLA: National Land Agency; MOPH: Ministry of Public Housing; ICB: Investment Co-ordinating Board; BAPPEDA: Regional Planning Board.

Source: Inspired by Ambrose (1977)

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*The Housing Industry*

In the housing industry, there are a number of methods in which the development process can be described as a sequence of events or series of stages (Cadman & Austin, 1983; Drewett, 1973; Miles et al., 1991; Kaiser and Weiss, 1969; Ratcliffe and Stubbs, 1996; Archer, 1977). Most of them considered the disposal as the end of the development process with no further explanation on the after sales management.<sup>4</sup>

For developers in the study area who develop more than 75 hectares of land, the disposal stage will not end until several years after the selling of the first house. Some developers suggest that their development process will not end until 20 to 25 years<sup>5</sup> after the first disposal begins. Therefore there is a need for asset and after sales management to ensure the continuing sales from the first disposal up to the last one. There might be some slight variations of the sequences practised in the study area, but by and large their stages can be identified as the following:

- 1) Concept and Initial Motivation
- 2) Land Searching
- 3) Lobbying for Development Proposal
- 4) Site Planning and Design
- 5) Contract and Construction
- 6) Funding Management, Marketing and Disposal
- 7) Asset and Estate Management

*Concept and Initial Motivation*

It should be borne in mind that the history of real estate development in Indonesia is not that long. The property development, in particular residential

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<sup>4</sup> See Chapter II for discussion of the development process.

<sup>5</sup> Author's interview with Ciputra, owner of several new town projects, on 5 December 1996 at Jakarta Convention Centre.



development industry, has just been started in mid 1970s. Up to 1996, Indonesia, and *Jabotabek* in particular, had only experienced two booms and one slump, which was not that severe.<sup>6</sup> Hence, the cycles of booms and slumps have not been experienced as they have been in Britain.<sup>7</sup> In the boom period, developers could obtain a significant profit-margin because of the increased price of land after development. This eventuality attracted some new players in land development industry, whose concept and initial motivation were driven by the profit maximisation<sup>8</sup> through improving the exchange value of the land.

However, some *Network-extender*<sup>9</sup> developers claimed that their concepts were more than merely profit maximisation. Ciputra is one of the developers who claim to have some idealism in initiating land development. He said that Vision-Concept-Strategy is the most important step in land development. Profit will come if the vision, the concept and the strategy are correct and correctly translated into an action plan.<sup>10</sup> His success has become an example for other developers who try to build their own images to be transferred into their projects. This image building became one of the marketing strategies for developers. Some interviewed developers said that idealism is important. "The idealism will keep you breathing in a downturn period". By idealism they mean introducing some new ideas for a good residential area such as environmentally

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<sup>6</sup> See Chapter V for the discussion of the industry in *Jabotabek*.

<sup>7</sup> The British property development industry dates to 1800 and has experienced several booms and busts. See for example Scott (1996) in his comprehensive book on the British commercial property sector, see also Ball (1983); MacLennan (1994); Mayes (1979).

<sup>8</sup> Profit maximisation is always associated to all private sectors in the property development. See for example Ratcliffe and Stubbs (1996); Adams (1994); Bramley, Bartlett and Lambert (1995).

<sup>9</sup> See Typology of developers in the area in Chapter VI.

<sup>10</sup> According to Ciputra there are five keys to success in land development Industry: First, Vision-Concept-Strategy and Action Plan; Second, Buyer's satisfaction; Third, Human Resource Development; Fourth, Asset Management; Fifth, Product Innovation, Promotion and Marketing. ("How to be a Conglomerate", Supplement in *Properti* Indonesia November 1996).

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sound area, good quality of housing and infrastructure provision<sup>11</sup>.

Ciputra said that a good developer should also be a visionarist.<sup>12</sup> Bumi Serpong Damai, one of Ciputra's housing project, for example, introduced waste management and mixed-housing<sup>13</sup> development. Being a Visionarist was seen as a justification for not doing a market research. Market research to find a suitable site as suggested by some writers (notably Ratcliffe and Stubbs, 1996) was not normally practised by developers in the study area. Only few developers admitted to have conducted market research. This fact was also noted by Struyk, Hoffman and Katsura (1990) as they pointed out that there was a tendency for developers in Indonesia to substitute casual observation of market trends and Government's target for detailed marketing and feasibility study. Good intuition was much more important for the developers and having the good intuition is precisely what Ciputra said as being a visionarist.

Sometimes developers would find the cheap land first and then conceptualised the idea of the kind of residents he/she wanted to develop on the site. This is particularly true for the *Network-extender* developers.<sup>14</sup> Therefore the development concept is not necessarily the first step in the process. The initial consideration to develop land for profit maximisation is taken by developers who

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<sup>11</sup> Author's interview with Johanes Tulung, General Manager PT Kuripan Raya on 14 October 1996 in his office.

<sup>12</sup> See footnote number 10.

<sup>13</sup> Although a Government's regulation stipulates that developers have to build proportionately 6 low-cost houses and 3 medium-priced houses for each expensive or large house they build in their projects, in practise only few large developers apply this requirement, on the ground that the price of land is too expensive for low-cost houses (see also Chapter IV).

<sup>14</sup> Interviews with Gordon Benton, City Manager of Lippo Karawaci and Johanes Tulung, General Manager of Bumi Kuripan revealed that most of the land for Lippo Karawaci and Bumi Kuripan were actually owned long before they had the idea to develop a new town. Development of BSD, the first privately built new town in Indonesia, was also started in the same way. The concept of BSD new town was dreamt by Ciputra when he and his friend (Eka Tjipta Wijaya from Sinar Mas Group) went to Tjipta's land in Serpong (As told by Ciputra in "How to be a Conglomerate", Supplement in *Properti* Indonesia November 1996).

have learned from others, notably from *Network-extender* developers. Some developers believe that they can earn more profit by improving the exchange value of the land than by investing in other alternatives. The comparison presented in Table 7.1 illustrates the difference on returns on investment of other alternatives of investments.

The table clearly shows that up to 1995 investment on land generated more rate of return compared to other types of investment. This fact is also supported by a report from a Business magazine, which asserted that investment in land was still promising<sup>15</sup> as of March 1996.

**Table 7.1:**  
**Land Price Increase, Inflation Rate, and Return on Alternative Investments**  
(per cent)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	Av. Annual Increase (%) 1987 - 1995
Land price increase <sup>a</sup> in central area	nd	nd	nd	nd	nd	nd	nd	nd	nd	34
in fringe area	nd	nd	nd	nd	nd	nd	na	nd	nd	50
Inflation rate <sup>b</sup>	8.9	5.47	5.97	9.53	9.52	4.94	9.77	9.24	8.64 (July)	8.00
Alternative investment <sup>c</sup>	25.12	-11.20	1.09	0.00	-1.29	-2.40	12.72	1.39	5.47	3.43
Gold	0.36	4.95	3.91	5.54	4.83	3.86	2.12	4.11	1.77	3.50
US\$									(June)	
Interest rates on 3 month deposits State banks <sup>d</sup>	nd	nd	17.06	21	21.88	16.72	11.79	14.43	16.16 (March)	na

Note : na = Not applicable; nd = No data

Source : a. Estimation based on the recent land price list published by several developers (see also Chapter V); b : BPS 1995, Bank Indonesia 1997; c : BPS 1995; d : BPS 1995

<sup>15</sup> A leading monthly business magazine in Indonesia "Eksekutif" in its article published in March 1996 suggested that investment in land was still promising. The article maintained that a proportion of 40 per cent investment in time deposit; 40 per cent investment in land; 10 per cent investment in stock market and 10 per cent cash would be the best alternative in spending money in Indonesia (Eksekutif, March, 1996: 43).

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*Land Searching*

The development process starts when the landowner decides to sell their land for development either to speculators or developers. Unfortunately, in *Jabotabek*, the landowners, particularly the farmers in the rural areas, are not aware of the process. Hence, unlike the development process in Britain where the landowners play an important role<sup>16</sup>, the land development process in the area is basically led by the developers and/or the speculators. In one hand, the activities of speculators start when they have information about development of large housing project or major highway (Struyk, Hoffman and Katsura, 1990). Once a proposed development is known, the speculators become active in searching for land through *Calo tanah* (intermediary) or the go-between (Leaf, 1991; Struyk, Hoffman and Katsura, 1990; Dharmawan, prob. 1995). It is the *Calo tanah* who then negotiates with the landowner.<sup>17</sup>

On the other hand the activities of developers start when they decide to search for land for their projects. The developers would then purchase land directly from landowners or from speculators. Searching for land is the heart of developers' activities as land is relatively scarce and there is no substitute for land.<sup>18</sup> As long as a developer still wants to build houses, he/she will always search for land. One developer said that the total area of land possessed as asset for residential development should never get any less. Ciputra Group, for instance, emphasises that if they sell one square meter of land they have to secure two square meters of land or at least the same area as what they have sold (Supplement *Properti Indonesia*, November, 1994: 7).

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<sup>16</sup> Goodchild and Muton (1985), for example, maintained that the role of landowners in the development process is significant. Their decision to sell their land by delaying the disposal when there is a high demand for land can significantly influence land price, particularly in the land that has obtained planning permission.

<sup>17</sup> The process of the *Calo tanah* acquiring land has been discussed extensively in Struyk, Hoffman and Katsura (1990); Leaf (1991) and Dharmawan (prob. 1995).

<sup>18</sup> See for example Drabkin (1977).

Struyk, Hoffman and Katsura (1990:86) claimed that in Indonesia developers rarely purchase land directly from landowners as the landowners usually feel more comfortable to deal with the *Calo tanah* rather than with the actual buyer or the investor. This study also finds that most of the developers interviewed (67 per cent) said that they did not deal directly with the landowners, 18 per cent said that they sometimes bought from agents and only 15 per cent said that they bought directly from landowners (see Table 7.2). Landowners are basically unable to differentiate the speculators from the investors. The developers apparently employ agents or co-ordinators in the field<sup>19</sup>, who sometimes appear like speculators and this explains why landowners claimed they rarely deal directly with the developers. This strategy has become widely practised by developers.

**Table 7.2:**  
**Source of Land**

Do you buy land from landowners?	No	%	Cum %
Yes	4	14.8	14.8
No	18	66.7	81.5
Sometimes	5	18.5	100
Total	27	100	

Source : Interview with the developers (1996).

In this step, the formal and the informal activities of the developers are intermingled. This is not only due to the activities of the co-ordinator in the field in dealing with the *Calo tanah* for the purpose of releasing land rights<sup>20</sup>, but also due to the fact that most of the rural land is not registered properly or has a *Girik* or a *Garapan Status*<sup>21</sup>, which makes the formal activities to release the land much more problematic. A developer or the co-ordinator employed by developer will contact the *Calo tanah*. The latter will then contact landowners and

<sup>19</sup> See also Dharmawan (prob. 1994).

<sup>20</sup> These quasi-legal activities by *calo tanah* have been discussed extensively by Leaf (1991) and Struyk, Hoffman and Katsura (1990).

<sup>21</sup> See Chapter IV on the discussion of land rights.

negotiate prices for a number of parcels. By so doing, developers avoid the time and effort spent on negotiations with the landowners. More importantly, with this technique, developers wash their hands of the stains from illegal or violent methods which are often associated with the release of land<sup>22</sup>.

Developers also purchase land from speculators when they wish to expand their projects. This is because once developers start a large residential project, the speculators, in the anticipation for project expansion, will buy land close to the project. Examination on the data on the Location Permit for residential development in *Kabupaten* Tangerang (BPN, 1996) reveals the fact that from 307<sup>23</sup> companies which had been granted the Location Permit, only around 10 per cent of them were recognised as developers who actually build and manage residential projects in the study area. The remaining 90 per cent were not recognised as developers, they were either speculators or land development companies owned by developers<sup>24</sup>.

Once developers are satisfied with the condition of the land, they will purchase the land even before they obtain Location Permit. Their decision to purchase the land is influenced by a number of factors. Most of the conventional literature (Kaiser and Weiss, 1970; Alonso, 1974; Evans, 1973) argued that accessibility to the location of centres of activities is the most important factor. Other scholars, notably Craven (1968), considered other factors such as land price, availability of large parcel and the suitability to land use plan as the important factors influencing the decision. In the study area, however, the locational

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<sup>22</sup> It is reported that there are incidents of direct physical threat to residents who refuse to sell the land (Leaf, 1990).

<sup>23</sup> There were 395 companies' names in the list, but some companies were recorded more than once as they might have been granted Location Permit in different locations. After close scrutiny only 307 names appeared as companies who had been granted Location Permit (see Chapter VI).

<sup>24</sup> Location Permit for Bumi Serpong Damai, for example, is recorded to be granted to 10 companies (Bumi Serpong Damai, 1995)

decision differs from that experienced in most developed countries. This will be discussed further in the succeeding section.

### *Lobbying for Development Proposal*

It is claimed that consulting planning authorities is essential for developers. Consultation with planning authorities creates a positive climate within which development progress (Ratcliffe and Stubbs, 1996; Drewett, 1973). This step is important for the developers in *Jabotabek* to obtain Location Permit, which will provide the legal document to release the land and start the development. The formal procedure for Location Permit application is not seen as a burden for all developers interviewed, although it is widely known that for obtaining Location Permit the developers have to pay more than the stipulated fee in the formal price list<sup>25</sup>. However, lobbying to all various authorities is a crucial step to ensure the development progress and its concept's compatibility with the spatial plan, if any, of the area.

Lobbying is even critical if the proposed development is not in the statutory spatial plan. When alterations of plan are involved, lobbying has to be started from the highest level of the Government. Lobbying for Bumi Serpong Damai, for instance, took more than two years (BSD, 1996) as it was the first and the largest new town developed by a private sector in Indonesia. The developer had to convince the Government for changing the land use and the administrative boundary. A new spatial plan was also prepared by the developer which was then approved by the Government. This means that developers have to carefully examine and approach the right people in all various authorities and agencies which will have significant influence in the development proposal. Often the developers have to consult the right person in certain Government agency to seek support for the development of infrastructure.<sup>26</sup> Therefore, Ciputra

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<sup>25</sup> See Chapter IV.

<sup>26</sup> Gordon Benton, City Manager of Lippo Karawaci, said that Lippo had to consult certain

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emphasised that the success key for developers is the support of power and networking. He said that “Power can be obtained from political channel, but the best is through company’s performance” (Ciputra as quoted in *Supplement Properti Indonesia*, November 1996: 2).

The use of influence in land development by the political elite is not uncommon in developing countries (Thirkell, 1994; Gilbert and Ward, 1985; Dunkerley, 1983; Durand -Lasserve, 1990; Rakodi, 1994; Batley, 1993; Baken and Van der Linden, 1992). Here, Ciputra confirmed that it is possible to use political channels to move forward the land development process in Jabotabek. His assertion is supported by evidence that most of the developers in one way or the other are connected with the political elite of the country<sup>27</sup>. Even the president of REI, Edwin Kawilarang, is member of the ruling party, Golkar, and has good connections with Bambang Suharto, son of the ex-president Suharto

### *Site Planning and Design*

#### (a) Planning and Design Strategy

A good site plan enables the developers to bank the land and practice a “leap frog” development. Observation to some projects reveals that the developers do not develop all their land at the same time. For example, the developer first divides a project into three sectors: A, B and C as shown in the Figure 7.2. The developer develops first sector A, and then sector C, leaving sector B undeveloped for some time to allow the land value to rise. The reason for doing so is to acquire maximum profit from the increasing land price due to development in sector A and C.

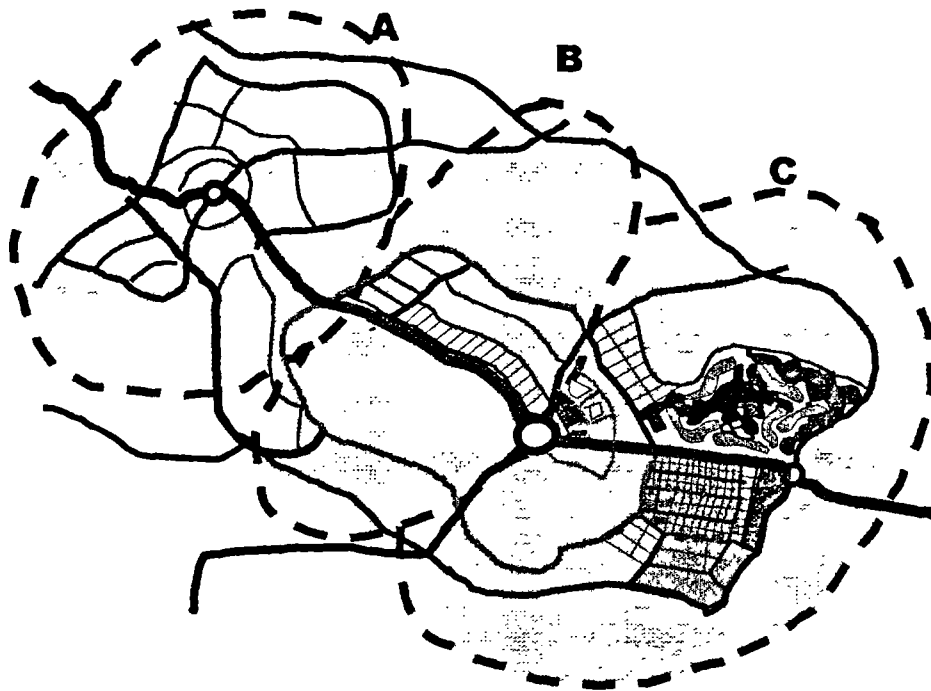
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persons in MOPW and PDAM (Regional Piped Water Company) in order to get their proposal for providing own potable piped water approved (author’s interview with Gordon Benton in 15 October 1996 in his office).

<sup>27</sup> See Chapter VI.



**Figure 7.2:**  
**Schematic Development of Residential Project**



Design is considered as an important step by developer, notably for the *Network-extender* developers. Design is an actualisation of vision, concept and strategies in a readable form for development, and therefore this step is crucial. Most of the developers interviewed (25 out of 27) admitted of hiring consultants to design their projects; only 2 of them claimed to have in-house consultants. 20 developers of those who hired consultants chose foreign consultants due to the consultants' fame. They also hoped that their foreign consultants could contribute to building an image for their projects. Lippo, Bumi Kuripan and BSD, for example, used the consultant's name for advertising the project. The consultant is also important in convincing the Government officials of the new development.

A good design creates image, which has become one of the marketing strategies. Image is usually built by the theme manifested in the name of the project and master plan of the proposed development. Therefore, the project's names are made in such a way to attract the buyers. Some examples of the names are as follows: *Bumi Serpong Damai: Kota Mandiri* (Bumi Serpong Damai: A Self-

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contained City); *Citraraya: Kota Nuansa Seni* (Citra Raya: The City of the Art); *Bintaro Jaya: Kota Taman* (Bintaro Jaya; The Garden City); *Kota Legenda* (Legend City).

Creating image for their residential project is a crucial consideration in planning and design stage. This is particularly important for the marketability and saleability of the products. By providing good quality of infrastructure and urban facilities, the developers create image and hence exploit the 'socio-economic' use of the house to some people as it is also widely accepted that beside its practical uses, housing is also used as the socio-economy status display as stated in the following phrase:

*" People's identities and status as individual and member of social groups are, in part, conferred and maintained in the home and in the process of housing consumption." (Dickens et al., 1985:193 quoted by Carter and Jones, 1989:40).*

The fact that the developers in the area, the supply side, have been exploiting the possibility to create a good image for their projects can be understood as it is supported by a recent study on the residential choices (Phe and Wakely, forthcoming). Phe and Wakely argued that the housing status (i.e. wealth, political power, employment, culture, ethnicity, education) and dwelling quality are more appropriate than accessibility/space trade-off for determining residential location. Their study<sup>28</sup> basically claimed that buyers, the demand side, consider buying houses as status symbols and tend to disregard their physical distance to CBD. And that is precisely what the developers in the area target for, the buyers' need to 'buy' the status symbol.

Developers' view on the use of image to attract the buyers is also supported by the result of the household's survey, which shows that accessibility to city centre

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<sup>28</sup> Phe and Wakely (forthcoming) study was conducted in Hanoi, Vietnam in the advent of economic liberation, which is comparable to the condition in Jabotabek area.

is not the most important consideration to buy a house in the area (see table 6.18 in Chapter VI). To create the preferred image the developers must provide attractive public facilities. When the developers were asked about other important facilities to be provided in their projects beside water and electrical networks, their answers show that in the developers' view good access to working place, good school, shopping centre and telephone networks are the facilities that most likely to be provided to enhance the saleability of the projects (see Table 7.3). Good school and shopping centre are the selling points as these facilities create the image of a well-planned high quality residential area.

**Table 7.3:**  
**Rank of Important Facilities to be Provided by Developer**

Facilities	First (1)	Second (2)	Third (3)	Total Answer (4)	% Sample (5)	Value (6)	Rank (7)
Golf field	3	0	0	3	11.11	15	6
Good school	5	4	5	14	51.85	42	2
Place for informal trader	0	0	1	1	3.70	1	12
Traditional market	0	2	3	5	18.52	9	9
Park	1	2	3	6	22.22	14	7
Shopping center	2	6	4	12	44.44	32	3
Working places	3	1	0	4	14.81	18	5
Good access to working places	6	6	1	13	48.15	49	1
Religious facilities	1	2	1	4	14.81	12	8
Telephone network	3	2	3	8	29.63	24	4
Waste disposal	0	1	0	1	3.70	3	10
Good environment	1	1	1	3	11.11	9	9
Security	2	0	2	4	14.81	12	8
Guard on the gate	0	0	1	1	3.70	1	12
Other	0	0	2	2	7.41	2	11
	27	27	27	81			

Note: (1) the most important factor; (2) the second most important factor; (3) the third most important factor; (4) = (1) + (2) + (3); (5) = (4)/27 x 100%; (6) = (1) x 5 + (2) x 2 + (3) x 1

Source: Interview with developers 1996

#### (b) The Economies of Scale

In the site planning and design, developers have to take into consideration the benefit of the economies of scale in the installation of infrastructure and its management. Basically, a developer uses its urban land value revenues to recover its land purchase, development works, loan interest and management costs, and to provide some of the profit.

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In the case of Jabotabek, a developer is not reluctant to invest substantially in basic infrastructure such as roads and streets, main drainage and sewerage, electricity networks and piped water, and the provision of other public facilities such as schools, offices and shopping centres. Provision of these facilities is an important element in the strategy to attract buyers. Working at such a large-scale means that these facilities can be installed at a lower unit cost to the developer, increasing the possible profit margins.

### (c) Developers' Provisions and Buyers' Expectations

Comparison of the developers' site planning and design strategies with the factors influencing buyer's decision to buy house shows that the developers have been able to fulfil the buyers' desires. Of six important factors influencing buyers' decisions to buy houses - namely, affordable house price, proximity to work place, good accessibility to city centre, proximity to shopping centre, proximity to good schools, and good housing security - five are matched by the facilities developers intend to provide (see Table 7.4). Although these five facilities may seem as standard for a residential development, in reality the quality of the facilities provided by developers and expected by buyers is above the standard provided by the government.

Because most of the buyers (60 per cent) work in Jakarta and the location of the residential areas are not close to Jakarta, good access to working places means that developers have to provide good means of transport to and from the central city. In one case, Lippo provides a shuttle bus from a Lippo development to the central city in the mornings and afternoons. Developers under Ciputra built a toll road that connects some of their projects to the central area of Jakarta.

Similarly, good accessibility to shopping centre and to a good school is wanted as well as good personal security. Developers build all these into their projects. The shopping centre is of a quality that sells not only primary goods but also secondary and tertiary goods. Lippo, in a joint venture with Walmart

Supermarket chain from the US even built a regional shopping centre. A good school means a quality school, so Bumi Serpong Damai built schools jointly with Al Azhar and Santa Ursula, two private education foundations with very good reputations in Indonesia<sup>29</sup>.

**Table 7. 4**  
**Comparison Between Developers' Provisions and Buyers' Expectations**

Facilities to be provided by developers	Rank	Factors influencing buyers' decisions to buy houses	Rank
Golf course	6	Availability of golf course	12
<b>Good school</b>	<b>2</b>	<b>Proximity to a good school</b>	<b>5</b>
Place for informal traders	12	Availability of informal traders	11
Traditional market	9	Proximity to traditional market	10
Park	7	Availability of good park	9
<b>Shopping center</b>	<b>3</b>	<b>Proximity to shopping centre</b>	<b>4</b>
<b>Work places</b>	<b>5</b>	<b>Proximity to work place</b>	<b>2</b>
<b>Good access to work places</b>	<b>1</b>	<b>Good Accessibility to city centre</b>	<b>3</b>
Religious facilities	8		
<b>Telephone network</b>	<b>4</b>		
Waste disposal	10		
Good environment	9		
<b>Security</b>	<b>8</b>	<b>Good housing security</b>	<b>7</b>
Guard on the gate	12		
Other	11	Other	6
		<b>Affordable house price</b>	<b>1</b>
		Proximity to families/friends	10
		NA	8

Source: Table 6.18 and Table 7.3

Proximity to work places means that the developers ensure places for jobs in their project areas. Lippo built an office tower and shopping centre, while other developers built shopping malls and small offices to attract employment opportunities into their areas. Good personal security means that the developers provide private policing of their areas for 24 hours and the protection of a solid

<sup>29</sup> Property Indonesia (June, 1997) reported that "Elite school opens branch in new residential areas in Kabupaten Tangerang. This school enhances education quality and at the same time improves the value added of the residential areas."

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perimeter fence separating the project from the surrounding rural area. Some developers, i.e.; Alam Sutera, Gading Serpong, even provide an emergency button in each house which is connected directly to the security office in each cluster. Lippo and some cluster in Bumi Serpong Damai installed gates with security officers to check every person who comes into the cluster. All those facilities enhance the exclusivity of the residential areas and they are obviously matched with what the buyers, who mostly are young professionals, want.

### *Contract and Construction*

Most of the developers interviewed (81 per cent) do not construct the houses themselves. They distribute the housing construction to contractors. Once the developers acquire the land and decide the plan for the area, they would find a suitable contractor to carry out the construction. Different types of developer carry out different strategy in developing their land. Most large developer observed developed the main road first followed by construction of houses and other residential facilities.<sup>30</sup>

There are two strategies in providing facilities for residential development practised in the study area. Firstly, to develop facilities in parallel to the population growth in the project. The sequence of development is usually started by the development of religious buildings, followed by schools, shopping centres, and clinics<sup>31</sup>. For some buyers, this strategy can be seen as neglecting the provision of public facilities because the developer does not provide the facility until the population reaches the amount used in the standard guiding the provision. This explains why some buyers complain that their residential areas lack of public facilities as showed by Table 6.20 in Chapter VI.

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<sup>30</sup> Residential facilities include religious buildings (Mosque, Church), school, shopping centre, sport facilities and clinics.

<sup>31</sup> These phase of facilities development is implemented in almost all projects under Ciputra Group (*Properti Indonesia*, November, 1996, Supplement).

Secondly, to develop the facilities first followed by housing construction. Lippo Karawaci is a project of a developer who implemented this strategy. Lippo developed the facilities such as high rise office buildings, regional shopping centre, regional hospital, exclusive schools, high quality of infrastructure (potable water, road) and hotel, almost at the same time with the construction of landed houses and apartments.<sup>32</sup> What is particular in Lippo strategy is that Lippo did not developed all the facilities using their own money. Basically Lippo invited other investors to build the facilities in Lippo's land. Other investors carried out almost all contracts and constructions of Lippo facilities.<sup>33</sup> Actually other developers also developed parts of the residential areas in Lippo's project.<sup>34</sup> This strategy minimises risk, cost money and capital for the developer, and at the same time the provision of good facilities increases the saleability of the houses. The disadvantage of this strategy is that quality control has to be well performed. Otherwise the developers have to deal with buyers' complaints about the quality of the construction of the house<sup>35</sup>.

#### *Funding Management, Marketing and Disposal*

Unlike any other residential development, large residential development needs massive fund for a considerable length of time, which makes funding management important for developers. It is also particularly important to ensure the continuity of fund during the construction process. This will include the ability to utilise the available sources of funds efficiently.

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<sup>32</sup> Author's interview with Gordon Benton, City Manager of Lippo Karawaci, on 18 November 1996 in his office (see also Master Plan Lippo Karawaci; *Properti Indonesia*, August 1995).

<sup>33</sup> Mochtar Riady, Chairman of Lippo Group, said: "Our Development in Lippo Karawaci and Lippo Cikarang look like a mega project, people will think that this kind of development requires huge investment. In reality the capital are not ours. We just sell the concept." (*Properti Indonesia*, October 1994).

<sup>34</sup> Author's interview with Kristianto, Vice Planning Manager of Lippo Cikarang, on 30 November 1996 in his Office.

<sup>35</sup> See Chapter VI, Table: 6.21.

Large *Network-extender* type of developer has more alternatives to secure funds compared to the small *Foot-holder* developer. Apart from utilising domestic as well as foreign banks and shares market as the financial sources, as will be discussed in the subsequent part, large developers in the area are also reported to use 'black money' as an alternative source of fund.<sup>36</sup> Other strategies to secure funds for development include merger; joint project; and loan from a syndication of banks. PT Putra Alvita Pratama, the company who developed Kota Legenda new town in Bekasi, for example, secured a soft foreign loan from OECF (Overseas Economic Co-operation Fund) as much as 3.1 billion Rupiah (appr. US\$ 1.24 millions) (*Properti Indonesia*, March 1997: 23). The same company also secured from a syndication of banks an amount of 265 billion Rupiah (appr. US\$ 106 millions) loan for housing development (*Properti Indonesia*, March 1997:24). Foreign loan is more attractive for developers as it carries lower interest rate than domestic loan<sup>37</sup> (*Properti Indonesia*, March 1997: 25).

In the marketing and disposal stages several selling strategies are implemented.

#### (a) Direct Selling Strategy

Only developers with good cash flow can use this option. Basically the developers build the houses in advance to create a ready stock. Buyers can select houses directly at site. The advantage of this strategy is that the developer could gain high profit particularly in the boom period when house price increases while their development cost, having been spent in advance, is fixed. This

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<sup>36</sup> Author's interview with Armand Amiarso, Financial Co-ordinator of International Investment Syndicate on 3 December 1997. Even though there is no hard fact to confirm the report, considering the fast return on investment in boom period and the amount of fund needed in this industry, the possibility of money laundering in land development industry in the area can not be undermined. Several prominent economic analysts in Indonesia also suggested the possibility of the practice of money laundering (see for example: "Pencucian Uang: Antara Urgensi Ekonomi dan Yuridis -Money Laundering: Between Economic Interest and Regulation- in Eksekutif, March, 1996 pp 31 - 37).

<sup>37</sup> Because the economy was overheated, in March 1997 the Government rose up the interest rate up to 30 per cent. The high interest rate at home has been seen as the factor which encouraged developers to find foreign sources. See for example Linblad, J. T.(1997), in his thorough analysis on Indonesian economic condition in 1997.



strategy, however, carries a high risk, as there is a possibility that the houses in stock are unsold in a sudden market downturn. Advertisement is important and crucial for this strategy. Some projects under the management of Ciputra i.e. Bumi Serpong Damai, Citra Raya and Puri Jaya, apply this strategy for a limited stock of medium and small houses.

#### (b) Pre-selling Strategy

This is the most used strategy. Basically the developer sells a proposal to prospective buyers through advertisement. Buyers make the selection through a set of drawings which show the types of house and their location in the project. There is no construction at the site, even for the infrastructure. Once an agreement with the buyer is reached, the buyer would pay a deposit and would sign a mortgage agreement with a bank. It is only after a number of 'houses' has been sold that the developer starts the project. If the minimum number<sup>38</sup> of houses to be sold in a package of development had not been reached the developer would postpone the project.

The advantage of this strategy is that it ensures the developers to capture a market which would absorb the product. There seems to be no disadvantage of using this strategy. The small drawback, if at all, is that the housing construction has to wait for some time until a certain number of buyers has been reached. In addition, this strategy relies much on advertisements and exhibitions. This strategy, however, opens for fraudulent behaviour, particularly for unknown developer. *Properti* Indonesia, in its October 1994 issue, for example, reported that one developer, PT Graha Jaya, had made bogus development. The developer had cheated 180 buyers who have paid the deposit,<sup>39</sup> by not developing the

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<sup>38</sup> The figures of the minimum number of houses vary for each developer, but in average is 50 to 70 per cent of the proposed development at a time.

<sup>39</sup> In an interview with *Properti* Indonesia, The Supreme Prosecuting Attorney, said that the property crime, including the bogus residential development had increased (*Properti* Indonesia, February 1994: 44).

promised houses. Some bogus developers were even reported to not owning any land at all.

(c) Internal Marketing Strategy

This strategy basically markets the product via internal employees. All employees in the group are encouraged to market the houses for a very attractive reward. This strategy has been widely used by Lippo group. Utilising employees of all companies under their Group to market the house either for themselves or their relatives and friends, Lippo set up a marketing club in which each employee could market the house with discount and other bonuses. With this strategy Lippo marketed 1,500 house units in Lippo Karawaci within two hours and marketed 1,200 house units in Lippo Cikarang within one hour (*Properti Indonesia*, October 1994: 26-27). This strategy is very advantageous. It cuts off the marketing cost to almost 80 per cent<sup>40</sup> mostly from cost for advertisements and exhibitions. This strategy at the same time ensures the absorption of the product.

Product disposal is very important to keep the company's cash flow in a good condition. Therefore, to ensure that the products are always absorbed by the market, developers also encourage the secondary market. Some private developers work closely with an international Estate Agent. The first of this kind in Indonesia was ERA (Electronic Reality Associates) an international agent founded in 1971 in New Jersey USA. ERA Indonesia was established in May 1992 (*Properti Indonesia*, November 1996) jointly with PT Dharmala Intiland. This was followed by Ciputra Group to hold Century 21, one of the biggest property brokerages in the world (*Media Indonesia*, 2 June 1997). With this strategy, the developers improve the information on housing supply, broadening the housing market as well. The successful REI's lobby to the Government to

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<sup>40</sup> Interview with Kristianto, Vice Planning Manager of Lippo Cikarang on 30 November 1996 in his office.

open the market for foreigners supported this strategy. Thus, in 1996, with the Government regulation No. 41/1996, foreigners are allowed to buy a house in Indonesia.

#### *Asset and Estate Management*

Housing disposal for large residential development takes a long time, some developers predicted that their projects would not end until 20 to 30 years after the development start. In such circumstances, good management of their assets and estates becomes crucial. To attract buyers, the developers have to ensure that their projects are always in good condition, physically and socially. One of the strategies adopted was the Estate Management. This strategy is aimed at making the new residential area habitable by ensuring that the area is always clean and safe at the expense of the residents. The developers usually organise the residents to manage their area by user charge systems. On top of the housing price, the residents are asked to contribute a monthly payment for security, domestic waste disposal, and park and garden maintenance. This strategy benefits the developers in two ways: in one hand the cleanliness and the safety of the area are maintained, on the other hand, the good environment of the area will attract other buyers. Ir Budi Karya Sumadi the director of Jaya Real property estimated 60 per cent of the Bintaro Jaya residents chose the location due to the good environment management (*Properti Indonesia*, June 1996:55).

#### *The Finance Industry*

Finance industry plays an important role in land development in the study area as this industry provides sources of fund for the developers. Traditionally developers rely on banks as their sources of fund besides their own capitals. But since 1995 the developers in *Jabotabek* area have also been utilising the financial market as their sources of fund. Finance industry in Indonesia gained its importance through the series of deregulation policies started in the 1980s.<sup>41</sup>

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<sup>41</sup>. Hill (1996) noted that the major reforms introduced in October 1988 proved to be the most

All domestic banks, provided they were sound, were free to open new branches, and establishing new private banks were permitted. Furthermore, state enterprises were allowed to deposit up to 50 per cent of their funds. Banks operation is made easier by cutting off the reserve requirement, e.g. from 15 per cent to 2 per cent of their liabilities for commercial banks (Hill, 1996). To stimulate the stock market, a 15 per cent tax on deposit was introduced. The result was remarkable, within two years (1988-1990) the number of companies listed in the market rose by 400 per cent and the market capitalisation by 2,500 per cent (Hill, 1996).

The growth of finance industry was also visible from the rise of private capital inflows to Indonesia. The amount of private capital inflows to Indonesia grew rapidly and surpassed the IGGI (Inter-Governmental Group for Indonesia) loans to Indonesia (see Table 7.5). The 'other components' of the private capital inflows as shown in the Table comprised of portfolio investments, bonds and other securities (Simarmarta, 1997).

**Table 7.5:**  
**Private and Capital Inflows to Indonesia 1991 – 1992**

	1991	1992	1993	1994	1995	1996
Direct Investment	1482	1777	2003	2108	4347	6194
Others	2928	3582	3216	1593	5907	5882
<b>Private Capital, net</b>	<b>4410</b>	<b>5359</b>	<b>5219</b>	<b>3701</b>	<b>10254</b>	<b>12076</b>
IGGI	5227	5574	5786	5353	5634	5005
Prvt. Cap.-IGGI	-817	-215	-567	-1652	4620	7071

Note: IGGI = Inter-Governmental Group for Indonesia

Source: Simarmarta (1996)

Capitalisation for property industry also rose considerably. Table 7.6 shows the growth of market capitalisation for property market in Jakarta Stock Exchange up to December 1995. Thus at the end of 1995, the market capitalisation had reached 10 trillion Rupiahs, while at the same time the Banks had been giving

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decisive financial policy initiative of the decade. See also footnote 18 of Chapter V.

out a total of 42 trillion Rupiahs as a loan for property development.<sup>42</sup> Together with the first boom period in 1989, as illustrated in Chapter V, the improvement of finance industry in 1992 by the series of deregulation policy has encouraged the growth of housing industry.

**Table 7.6:**  
**Share Price and Market Capitalisation of Listed Property Companies**

Company Name	Share Price (Rupiah)				Market Capitalisation (Million Rupiah)	
	23-Dec-94	3-Jan-95	1-Nov-95	5-Dec-95	Jan-95	Dec-1995
1 <i>Bhuwanatala Indah</i>			1050	2350		94000
2 <i>Ciputra Development</i>	5300	5600	4600	3900	1400000	975000
3 <i>Dharmala Intiland</i>	2075	1975	1275	1175	505526	296262
4 <i>Duta Anggada</i>	1625	1525	1425	1225	412500	336875
5 <i>Duta Pertiwi</i>	3150	3200	2675	2300	714375	636250
6 <i>Elang Realty</i>			650	650		227500
7 <i>JIH &amp; Development</i>			3100	2900		1119423
8 <i>Jaya Real Property</i>	7000	7000	6475	5550	1645000	1304250
9 <i>Jababeka</i>			4375	3675		1152627
10 <i>Lippo Land Development</i>	2700	2950	1825	1600	746481	398123
11 <i>Metro Supermarket</i>	2000	2000	1000	1050	52920	61123
12 <i>Modernland Realty</i>	6000	6000	3200	2450	448800	187480
13 <i>Mulia Land</i>	2200	2250	1500	1500	850500	567000
14 <i>Ometraco Realty</i>	1500	1750	1500	1500	219375	202500
15 <i>Pakuwon Jati</i>	1800	1850	1925	1550	388500	325500
16 <i>Panca Wiratama Sakti</i>	5500	5500	2000	1950	181500	64350
17 <i>Plaza Indonesia</i>	2000	2550	2100	2100	879750	724500
18 <i>Pujiadi &amp; Sons E</i>	3900	3900	3900	3900	92664	97297
19 <i>Pujiadi Prestige</i>	1700	1825	1600	1500	192500	150000
20 <i>Putra Surya Perkasa</i>	2100	2075	650	1050	653625	551250
21 <i>Sumarecon Agung</i>	3600	3600	1375	1350	147603	214650
22 <i>Suryamas D</i>			600	625		327500
<b>Total</b>					<b>9531619</b>	<b>10013460</b>

Source: *Properti Indonesia*, January 1996 (pp 31-32)

### Locational Decision

The decision to buy land in a certain location to place a residential project involves a number of factors and needs the ability to assess risks. It is the first step to obtain much exchange value of the land, since the developers basically convert a non-urban use land, or rural use land in the case of *Kabupaten*

<sup>42</sup>

See Chapter V for the discussion on the property loan. See also Table 5.6.

Tangerang, into an urban use land. The decision to buy land is the crucial step as at this step the developers have to make a combination of locational decisions and investment decisions, which will affect the future exchange value of the land, and thus the profit they will acquire<sup>43</sup>.

Ciputra, the most prominent developer in Indonesia, pointed out five factors influencing locational decision. Those are market demand in the area<sup>44</sup>, development concept, land price, financial capacity, and technical aspects. He, however, stressed that land price would have the most impact on the price of the final product.<sup>45</sup> He is not alone in expressing implicitly that land price is much more important than the other factors. However, a question asked to the developers in the study area received various answers. 33 per cent of the respondents pointed out that land price is the most important factor for locational decision, only 7 per cent claimed that proximity to city centre is the most important factor, while 26 per cent of the developers answered that market demand in the location is the most important factor (Table 7.7).

**Table 7.7:**  
**The Most Important Factors Influencing Locational Decision**

Factor	No.	%
Market demand	7	26
Environmental quality	1	4
Land price	9	33
Suitability to the Spatial Plan	3	11
Proximity to city centre	2	7
Proximity to main road	3	11
Land availability	1	4
Possibility to create a regional centre	1	4
<b>Total</b>	<b>27</b>	<b>100</b>

Source: Author's interview 1996

<sup>43</sup> According to 'Si Pengembang' (the group of companies under Ciputra's management), one of the hints to satisfy the buyers is the location and access to the project: if access to the location is limited, developers have to improve it by constructing road to the location (*Properti Indonesia*, November 1996, Supplement).

<sup>44</sup> See the discussion on the market demand.

<sup>45</sup> Author's interview with Ciputra on 5 December 1996 in Jakarta Hilton Conventional Centre.

The importance of land price in influencing the decision to buy land is more pronounced when the developers were asked to rank the factors influencing their locational decision as the first, second and the third most important factors. The answer is interesting, 78 per cent of the respondents claimed land price as one of the important factors; 59 per cent answered it with market demand and 48 per cent claimed suitability with the Spatial Plan (Rencana Tata Ruang) as one of the important factors influencing the decision. If value is attached in each choice i.e. 5 for the most important, 3 for the second most important and 1 for the third most important factor, a rank of factors can be constructed more clearly as seen in Table 7.8.

**Table 7.8:**  
**Rank of Factors Influencing Locational Decision**

Factor	First (1)	Second (2)	Third (3)	Total Answer (4)	% of Sample (5)	Value (6)	Rank (7)
Market demand (in the location)	7	5	4	16	59%	54	2
Environmental quality (scenery, pollution free)	1		1	2	7%	6	7
Land price (the cheaper the better)	9	6	6	21	78%	69	1
Land status		2	1	3	11%	7	6
Land use planning (the location is designated for residential)	3	6	4	13	48%	37	3
Availability of piped water			2	2	7%	2	8
Proximity to city centre	2	4	2	8	30%	24	4
Proximity to other residential project				0	0%	0	10
Availability of electrical networks				0	0%	0	10
Proximity to main road	3	2	3	8	30%	24	4
Proximity to public transportation				0	0%	0	10
Proximity to shopping center				0	0%	0	10
Proximity to a good school				0	0%	0	10
Permit procedures				0	0%	0	10
Possibility to create a regional center	1		1	2	7%	6	7
Land availability	1	2	2	5	19%	13	5
Other			1	1	4%	1	9
Total	27	27	27	81		243	

Note : (1) The most important factor; (2) Second most important factor; (3) Third most important factor; (4) = (1)+(2)+(3); (5) = (4) ÷ 27 x 100 %; (6) = (1) x 5 + (2) x 3 + (3) x 1

Source: Author's interview with developers.

The table shows that land price is in the first rank, followed by market demand and suitability to land use plan. In contrast, availability of infrastructure, e.g.

piped water is not important (rank 8) neither is the electricity network (rank 10). Furthermore, accessibility as represented by the proximity to the city centre, public transportation, main road, shopping centre is not that 'important'. These are shown by their rank numbers; 4, 4, 10 and 10 respectively. This evidence upholds the main hypothesis of this study i.e. land price has been the most important factor for locational decision for developers in the study area. But why is this so? The following section examines some of the factors influencing the decision.

### ***Land price***

There is no significant difference of the importance of land price among the developers. Almost all developers interviewed (63 + 22 per cent) agreed to the statement that land price is the most important factor influencing the locational decision, with 22 per cent of them claimed to strongly agree (see Table 7.9). The answers to the statement as presented in Table 7.9 is a confirmation of the rank of land price as the most important factor for locational decision as presented in Table 7.8.

The reason of this result can be explained by the possibility of earning more profit when land-buying price is cheap, as follows: 40 per cent of the developers said that the land for the projects was bought in 1990 (see Table 7.10). In that year it was still possible to purchase a square meter of land at around Rp. 3,000. Van Raay (1991) for example, estimated that land prices in Tangerang ranged from Rp. 2,000 to Rp. 5,000 per square meter if it was obtained directly from the farmer. Obviously the legal status of the land<sup>46</sup> i.e. Fee Simple Ownership (*Hak Milik*) or Traditional Ownership (*Hak Adat/girik*) has a very significant effect on raising the land price (Dowall and Leaf, 1991; Leaf, 1993).

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<sup>46</sup> See Chapter IV for discussion of land titles.



**Table 7.9:**  
**Opinion on Factors Influencing Locational Decision**

	Inprfac	%	lanarea	%	lanstatu	%
Strongly disagree	0	0	0	0		0
Disagree	2	7.4	1	3.7	8	29.6
Undecided	2	7.4	1	3.7	1	3.7
Agree	17	63.0	13	48.1	11	40.7
Strongly agree	6	22.2	12	44.4	7	25.9
Total	27	100	27	100	27	100

Note : Inprfa= Land Price as the most important factor

Lanarea= The availability of land as the most important factor

Lanstatu= Legal ownership right of land as the most important factor

Source: Author's interview with developers.

**Table 7.10:**  
**Land Purchases by Respondents, by Year**

year bought	No.	%
1970	1	3.7
1979	1	3.7
1980	1	3.7
1983	1	3.7
1986	1	3.7
1987	1	3.7
1990	11	40.7
1991	1	3.7
1992	2	7.4
1993	2	7.4
1994	2	7.4
1995	1	3.7
Na	2	7.4
Total	27	100

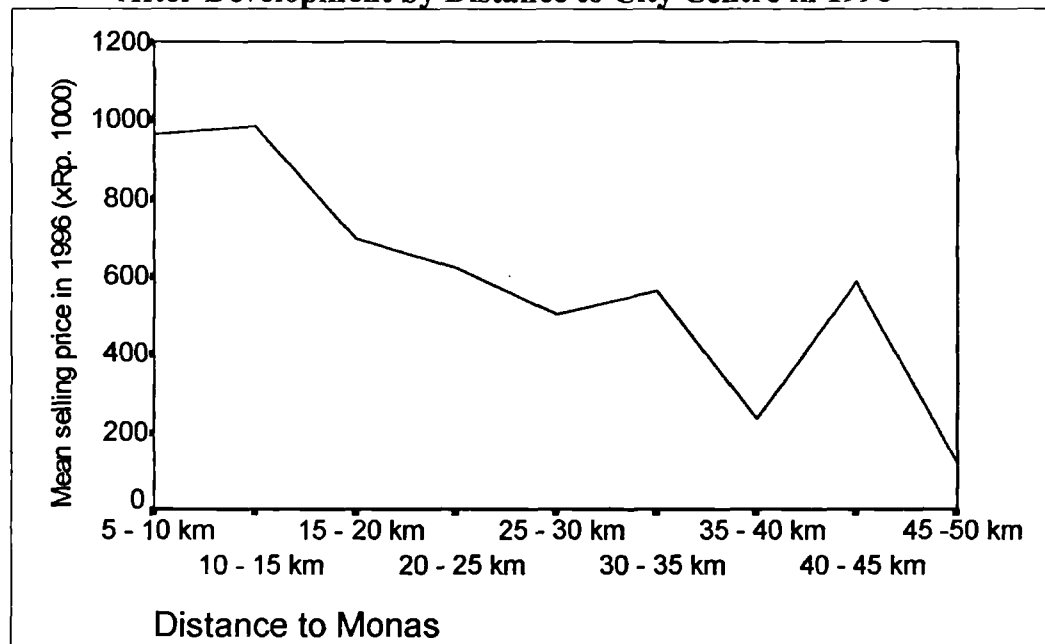
Source: Sample survey; Na: No Answer

A comparison between the land prices before and after development, unfortunately, can not be made from the interviews due to inconsistencies which occurred in the developers' answers to the question regarding the land price before development. However, using a dummy price developed from Dowall and Leaf's (1991) study<sup>47</sup> and the selling price of land after development which were

<sup>47</sup> Dowall and Leaf (1991) in their article have shown the distribution of land price in Jakarta. They found that the gradient, which is the proportional change in land value for each km change in distance from CBD, is - 0.1689 in 1989. Using this parameter and their formula:  $V_x = V_o e^{-hx}$  where

obtained from 48 projects in Jakarta, Tangerang Bogor and Bekasi<sup>48</sup>, a striking price appreciation<sup>49</sup> within 7 years alone (1989 - 1996) can be seen (see figures 7.3; 7.5, 7.6 and Table 7.11).

**Figure. 7.3:**  
**The Mean of Selling Price of One Square Meter Land**  
**After Development by Distance to City Centre in 1996**



**Note** : Monas = Monumen Nasional = National Monument, assumed as the centre of Jakarta

**Source** : Calculated from price list published in Property Indonesia magazines (June, October, November 1996; April 1997), Panangian Simanungkalit (1996)

$V_x$  is land price at  $x$  km;  $V_0$  land price at the centre of the city;  $e$  is Naperian Logarithm; and  $h$  is the land value gradient parameter, a dummy price can therefore be developed to see the land price in 1989. The 1989 figures were then adjusted to 8 per cent inflation annually to obtain the 1996 price.

<sup>48</sup> Land price list obtained from Property magazine and Benchmark valuation from Panangian Simanungkalit (1996).

<sup>49</sup> Land price appreciation is the ratio of selling price to buying price.

Table 7.11:  
Land Purchase, Land Price 1996 and Price Appreciation

No	Company Name	Project Name	Location	Area of Location Permit (ha)	Distance to Monas (km)	Year Bought	Land Price Bought /m <sup>2</sup>	Dummy Price 89 (X 1000 Rp) <sup>a</sup>	Dummy Price 96 (X-1000Rp) <sup>b</sup>	Selling Price 96 (X 1000 Rp) <sup>c</sup>	Appreciation %	Note
1	Beta Gold Land	Puri Beta	Jakarta	75	10	1980	11000	85.61	133.55	863.6	6.47	Interviewed
2	Duta Putra Mahkota	Villa Dago	Tangerang	75	22.5	1994	10000	10.36	16.16	280	17.33	Interviewed
3	Bina Sarana Mekar	Palem Semi	Tangerang	80	21	1983	3000	13.35	20.83	500	24.01	Interviewed
4	Taman Kedoya Baru	Taman Kedoya Baru	Jakarta	80	7	1970	3000	142.11	221.69	1127.8	5.09	Interviewed
5	Masa Kreasi	Medang Lestari	Tangerang	100	25	1990	2500	6.79	10.59	473.5	44.7	Interviewed
6	Duta Putra Mahkota	Duta Gardenia	Tangerang	100	24	1993	3000	8.04	12.54	325	25.91	Interviewed
7	Reni Jaya	Vila Pamulang	Tangerang	115	23	1990	3000	9.52	14.85	222	14.95	Interviewed
8	Wijaya Karya	Banjar Wijaya	Kod. Tangerang	120	20	1990	4000	15.81	24.66	400	16.22	Interviewed
9	Taman Adyasa	Taman Adyasa	Tangerang	150	50	1990	2000	0.1	0.16	121	775.64	Interviewed
10	Duta Realindo	Kedaton	Tangerang	200	33	1990	1500	1.76	2.75	648.5	236.2	Interviewed
11	Daksa	Kota Kembang Depok Raya	Bogor	300	7	1994	10000	142.11	221.69	.	.	Interviewed
12	Melati Mas	Melati Mas	Tangerang	300	20	1990	6000	15.81	24.66	375	15.2	Interviewed
13	Pulo Mas Jaya	Pulomas Jaya	Jakarta	350	5	1960		199.22	310.78	900	2.9	Interviewed
14	Perumnas	Perumnas	Tangerang	450	23	1987	1500	9.52	14.85	.	.	Interviewed
15	Lippo Karawaci	Lippo Karawaci	Tangerang	500	23	1990	7000	9.52	14.85	975	65.65	Interviewed
16	Alam Sutera	Alam Sutera	Tangerang	700	19	1990	5000	18.72	29.2	1030.5	35.29	Interviewed
17	Modernland	Kota Modern	Kod. Tangerang	700	18	1990	6000	22.16	34.57	580.5	16.79	Interviewed
18	Kuripan Raya	Telaga Kuripan Raya	Bogor	750	20	1970	.	15.81	24.66	325	13.18	Interviewed
19	Gading Serpong	Gading Serpong	Tangerang	1080	20	1990	3000	15.81	24.66	600.5	24.35	Interviewed
20	Jaya Real Property	Puri Jaya	Tangerang	1800	30	1992	6000	2.92	4.56	549.5	120.63	Interviewed
21	Kota Legenda	Kota Legenda	Bekasi	2000	25	1990	5000	6.79	10.59	621	58.63	Interviewed
22	Jaya Real Property	Bintaro Jaya	Tangerang	2300	15	1979	500	36.79	57.39	729	12.7	Interviewed
23	CitraLand	Citra Raya	Tangerang	2700	33	1993	10000	1.76	2.75	481	175.19	Interviewed
24	Tiga Raksa	Kota Tiga raksa	Tangerang	3000	39	1991	500	0.64	1	137	137.22	Interviewed
25	Lippo Cikarang	Lippo Cikarang	Bekasi	5500	30	1992	10000	2.92	4.56	375	82.32	Interviewed

To be continued in the next page

Table 7.11:  
Land Purchase, Land Price 1996 and Price Appreciation (continued)

No	Company Name	Project Name	Location	Area acc. Location Permit (ha)	Distance to Monas (km)	Year Bought	Land Price Bought /m <sup>2</sup>	Dummy Price 89 (X 1000Rp) <sup>a</sup>	Dummy Price 96 (x-1000Rp) <sup>b</sup>	Selling Price 96 (X 1000Rp) <sup>c</sup>	Appreciation %	Note
26	Bumi Serpong Damai	BSD	Tangerang	6000	22	1986	1000	11.28	17.6	380	21.59	Interviewed
27	Bukit Jonggol Asri	Bukit Jonggol Asri	Bogor	33000	40	1995	30000	0.54	0.84	660	783.48	Interviewed
28	Tatawira Sakti	Puri Marisa	Tangerang	15	20	na	na	15.81	24.66	1345	54.53	
29	Mustika Hadasari	Vila Ilhami	Tangerang	100	22	na	na	11.28	17.6	1081	61.43	
30	Sinar Puspa Persada	Telaga Bestari	Tangerang	70	41	na	na	0.46	0.72	589.35	821.28	
31	Subur Progres	Nirwana Serpong Agung	Tangerang	150	23	na	na	9.52	14.85	517.3	34.83	
32	Puriayu Lestari	Bumi Eksekutif	Tangerang	14	22.5	na	na	10.36	16.16	1056.47	65.37	
33	BHS Land	Bumi Indah	Tangerang	200	28	na	na	4.09	6.38	354.25	55.52	
34	Tatacitra Grahaserasi	Gardenia Estate	Tangerang	5	19	na	na	18.72	29.2	868.2	29.73	
35	Banguncentra Pamulang	Vila Pamulang Mas	Tangerang	60	21	na	na	13.35	20.83	474.65	22.79	
36	Burna Jaya	Pondok Payung Mas	Tangerang	5	20	na	na	15.81	24.66	672.85	27.28	
37	Puri gading Selaras	Prima Bintaro	Tangerang	2	13	na	na	51.58	80.46	1212.86	15.07	
38	Sadana Manekaguna	Vila Jombang Baru	Tangerang	5	18	na	na	22.16	34.57	766	22.16	
39	Setia Cipta Markindo	Geria Jakarta	Tangerang	50	21	na	na	13.35	20.83	818.1	39.28	
40	Panca Muara Jaya	Vila Tangerang Regensi	Tangerang	150	25	na	na	6.79	10.59	442.95	41.82	
41	Altan Karsaprima	Vila Inti Persada	Tangerang	30	22.5	na	na	10.36	16.16	905.5	56.03	
42	Modernland	Bukit Modern	Tangerang	50	21	na	na	13.35	20.83	1137.8	54.63	
43	Bagun Segara	Bangun Grija Islam	Tangerang	18	39	na	na	0.64	1	145	145.23	
44	Bukit Permata Nirwana	Tataka Puri	Tangerang	150	27	na	na	4.85	7.57	736.5	97.34	
45	Taman Rempoa Indah	Taman Rempoa Indah	Tangerang	10	14	na	na	43.56	67.95	1005	14.79	
46	Andaru Sakti	Daru Indah	Tangerang	10	39	na	na	0.64	1	107	107.17	
47	Restu Alam Permata	Permata Balaraja	Tangerang	50	37	na	na	0.89	1.39	126.5	91.11	
48	Bumi Upaya Griya	Pamulang permai	Tangerang	125	21	na	na	13.35	20.83	341.25	16.39	
	mean			1329.04	23.72			22.64	35.32	617.04	100.12	

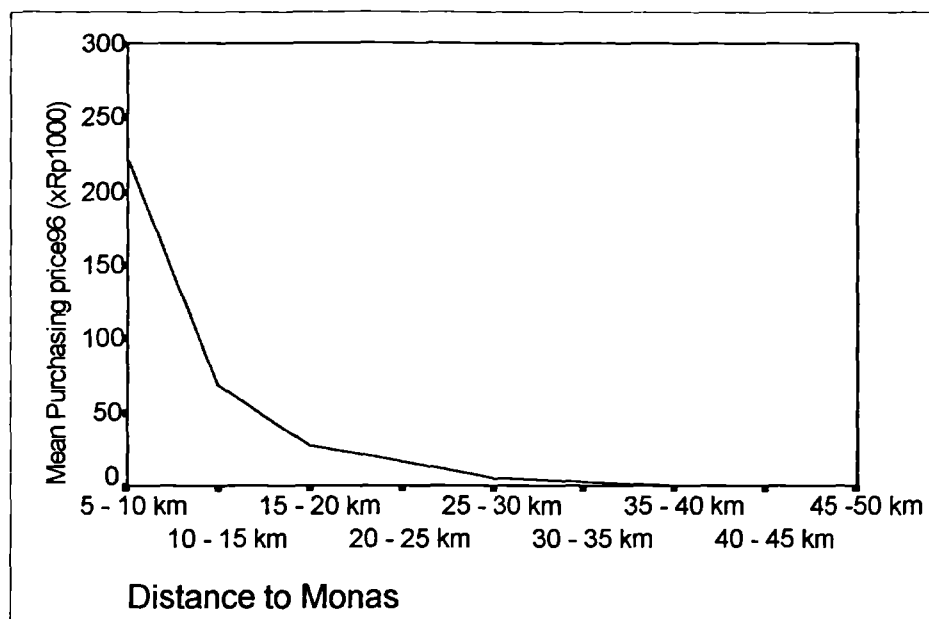
Note: a Dummy price before development in 1989, developed from Dowall and Leaf 1991

b Dummy Price before development in 1996, adjusted to 8 per cent inflation

c Land price after development, compiled from median selling price listed in *Properti Indonesia* (June., October, November, 1996); *Properti Indonesia* April 1997, Panangian Simanungkalit (1996)

d Appreciation = Selling price 96 ÷ Dummy 96

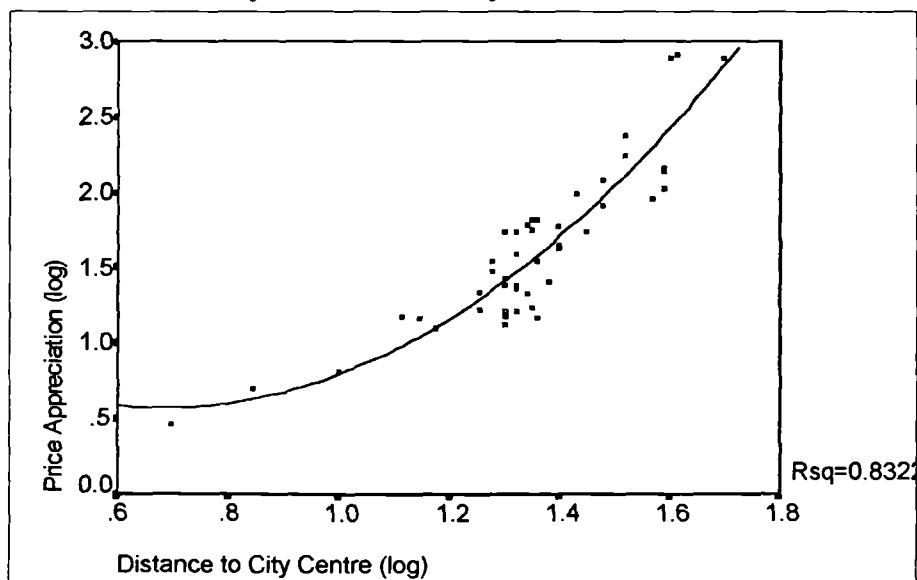
**Figure 7.4:**  
**Dummy Mean of Purchasing Price of One Square Meter Land**  
**in 1996 by Distance to City Centre**



**Note** : Monas = Monumen Nasional = National Monument, assumed as the centre of Jakarta

**Source** : Calculated from Dowall and Leaf (1991)

**Figure 7.5:**  
**Potential Land Price Appreciation**  
**by Distance to City Centre in 1996**



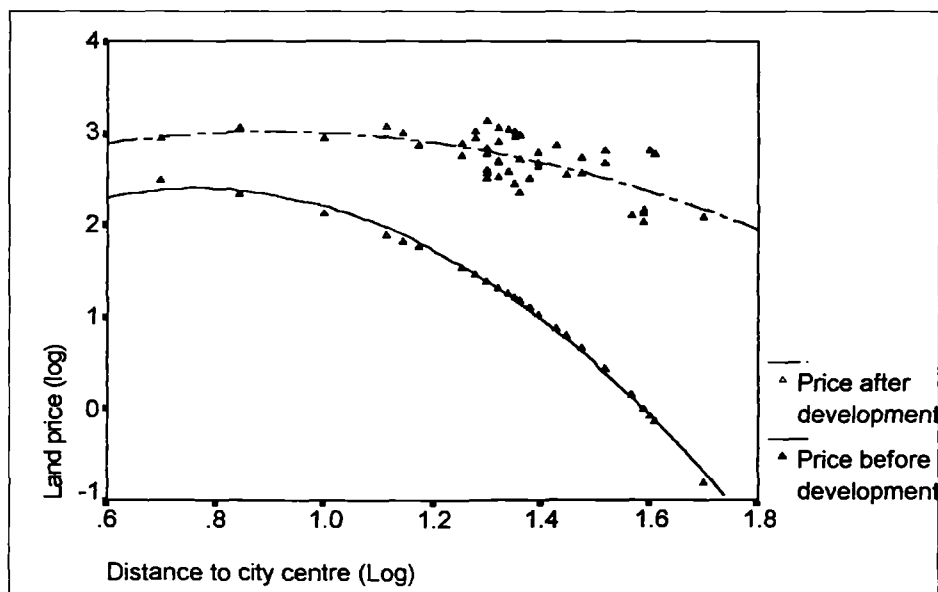
**Source** : Author

The land price increased 100 times in average after the development as can be seen in Table 7.11. The developers who had already owned the land before the

project was started, benefited from this price increase. The potential price appreciation<sup>50</sup> rises when the distance to the centre increases -which also means when the price decreases. A correlation test also demonstrates that there is a high positive correlation index (0.8322)<sup>51</sup> between land price appreciation and the distance to city centre (see figure 7.5 above).

Figure 7.6 shows the price difference before and after development by distance to city centre, which clearly reflects the possibility to make more profit when the land purchase price is cheaper. Therefore, although these figures do not show the actual profit, they do show the possibility to acquire a proportionally higher profit-margin if the development is located at a further distance from Jakarta where the land price is cheaper.

**Figure 7.6:**  
**Price Difference, Before and After Development (logarithm)**



Source : Author

<sup>50</sup> Price appreciation = Selling price 96 ÷ Dummy price 96.

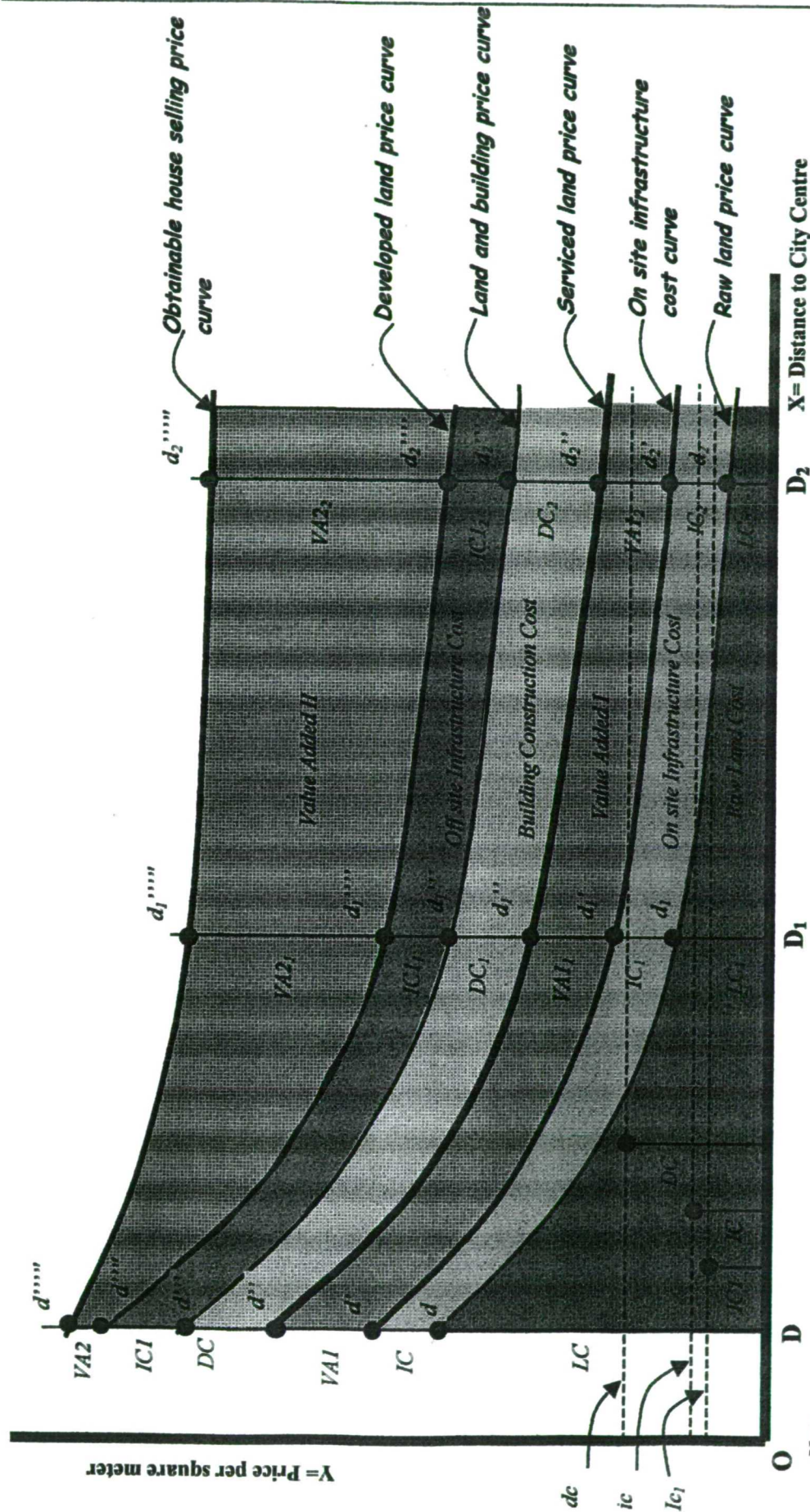
<sup>51</sup> Logarithmic correlation.

At the individual level, the completed site price is a reflection of the opportunity cost for agriculture, a speculation increment due to urban use potential, an increment due to community action (granting of planning permission or development of urban services), and the construction cost (Drewett, 1973). Hence, the price after development can be seen as the accumulation of the costs of the factors of production plus profit. Thus, the possibility of profit is equal to the selling price minus the cost of factor of production. Considering this individual price construction and the calculation as presented in Figures 7.3 and 7.4, hypothetical curves, which show the relation between distance and land-buying price, construction cost and selling price can be constructed as illustrated in Figure 7.7:

Y represents price and X represents distance, with  $dd_2$  being the raw land price curve,  $d'' d_2''$  being the serviced land price curve,  $d'''' d_2''''$  being the housing selling price curve,  $ic$  as the infrastructure cost line and  $dc$  as development cost line. The housing price is dependent on the buyers' willingness to pay for a house. This curve is not steep because on the one hand, at a certain point close to CBD, buyers would not be willing to pay more than a certain price, which is considered as suitable for the buyer. On the other hand, due to the role of a house as a status symbol, as long as the house could enhance the image or status of the buyers (Phe and Wakely, forthcoming), buyers would still be willing to pay more than for a house at a considerable distance from CBD,

Under normal condition, the infrastructure cost and development cost are fixed due to a relatively elastic supply of material and labour. The land itself is relatively inelastic in supply, therefore the initial purchase price would be cheaper at a further distance from the city as presented by curve  $dd_2$ . Adding it with the development cost  $IC$ , the price of land plus infrastructure would be  $d'd_2'$ . Because of the existence of the infrastructure, the market land price (serviced land price) would increase to curve  $d'' d_2''$  which represents the increased land price due to the value added  $VAI$ .

Figure 7.7:  
Hypothetical Curve of the Potential Profit Gained (per square meter land)



Note

$OD, OD_1$ , and  $OD_2$  are distance at  $D, D_1, D_2$  from city centre  
 $LC, LC_1$  and  $LC_2$  are Land Cost at  $D, D_1$  and  $D_2$   
 $IC, IC_1$  and  $IC_2$  are On site Infrastructure Cost at  $D, D_1$  and  $D_2$   
 $VA_1, VA_1_1$  and  $VA_1_2$  are Value Added I at  $D, D_1$  and  $D_2$   
 $DC, DC_1$ , and  $DC_2$  are Project Development Cost at  $D, D_1$  and  $D_2$   
 $VA_2, VA_2_1$  and  $VA_2_2$  are Value Added II at  $D, D_1$  and  $D_2$   
 $IC_1, IC_1_1$  and  $IC_1_2$  are Off site Infrastructure Cost at  $D, D_1$  and  $D_2$

At  $D$  where infrastructure is provided by the government, the value gained by developers is only  $VA_2$ . At  $D_2$  if the infrastructure is provided by the developer, the developer will enjoy both  $VA_2_2$  and  $VA_1_2$



With building construction cost  $dc$ , the developed land price (land plus building) would be represented by  $d''' d_2'''$  curve. Apart from this, a developer may have to build off-site infrastructure  $IC1_2$  at  $D_2$  or  $IC1_1$  at  $D_1$  to enhance the accessibility of his or her site as is represented by the curve  $d''''d_2''''$ . This cost may not necessary for sites at closer distance to CBD where such service is provided by the Government.

With total development cost (excluding the administrative cost) as represented by  $d'''' d_2''''$ , a developer could sell land including a house at an obtainable house selling price as represented by curve  $d''''' d_2'''''$ . With this price the developer could obtain value added as much as  $VA2$  for location at  $D$  or as much as  $VA2_2$  for location at  $D_2$ . If a developer develops land at  $D_2$  and invests in his/her own infrastructure, he or she could obtain value added as much as  $VA2_2$  plus value added  $VA1_2$ . In other words, by going out to where land can be bought at farm-use value a developer can claim all of the values added.

It should be noted here that the housing selling price curve  $d''''' d_2'''''$  is constructed in anticipation of demand in an imperfect market because of the oligopolistic nature of the market, due to the limited number and close relationships of its suppliers<sup>52</sup>. The developers also exploited this condition using internal marketing strategy<sup>53</sup> to capture the market. Furthermore, the buyers have no perfect knowledge of the market, among other due to the persuasive advertising. In addition, the provision of basic infrastructure and other public facilities on the site increases its potential for the extraction of 'monopoly rents', allowing the developers to 'dictate' prices. The developers become a price maker rather than a price taker. Raising the selling price, with other costs fixed, will increase the economic rent of the land, and thus the gain of super normal profits is possible.

<sup>52</sup> See discussion on the profile of developers in Chapter VI.

<sup>53</sup> See discussion on funding management, marketing and disposal in this chapter

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**Demand**

Market demand in the area has been mentioned as the second most important factor influencing the locational decision. This, however, should be looked at cautiously. According to the Central Bureau of Statistic (BPS, 1994), the population of *Jabotabek* is predicted to reach 23.7 million by the year 2000 (see Table 7.11). Using 1995 as the base year, an estimation on the amount of house units required to house the growing population up to the year 2000 can be made. Several assumptions are applied: firstly, household size is 4.3 person<sup>54</sup>; secondly, the replacement for some housing stocks due to depreciation, fires, natural disaster, conversions to other uses and other causes is assumed at the rate of 2 per cent per year<sup>55</sup>; thirdly, it is assumed that 50 house units can be built in a hectare land; and fourthly, the supply of housing is assumed to be started in 1994<sup>56</sup>. The result of the calculation is presented in Table 7.12.

**Table 7.12:**  
**Population Projection in *Jabotabek* 1990 - 2000**

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**Botabek stands for Bogor, Tangerang and Bekasi**  
**Source: BPS (1994)**

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<sup>54</sup> See footnote no 33 of Chapter V

<sup>55</sup> This figure is borrowed from Struyk, Hoffman and Katsura (1990). They interpreted 2 per cent replacement rate, corresponding to a fifty-year average lifespan of a dwelling unit (see Struyk, Hoffman and Katsura, 1990: 33).

<sup>56</sup> Examination to 410 Location Permits granted in *Kabupaten* Tangerang reveals that most of them (34 %) were issued in 1995; 20 % were issued in 1994; 19 % were issued in 1996. The oldest ones were issued in 1984 (0.2%). Thus it is reasonable to assume that the supply accumulation was started in 1994.

If the annual need for housing is converted to annual need for land, it is clearly shown that the annual supply of land is already far above the real need for land (Table 7.13). In *Kabupaten* Tangerang, for example, the annual need for land is only 860 hectares while the annual supply is 7260 hectares, hence an excess supply of 6390 hectares land annually is apparent. Therefore it can be accepted that market demand for land for housing is not an important factor for locational decision.

Table 7.13 also shows that in *Kotamadya* Bogor and *Kotamadya* Tangerang the over supply of land is not substantial. This is because these two *Kotamadya* are already urban areas and the land allocated for development is limited as seen through the granting of Location Permit in these two *Kotamadya* (2,462 hectares in *Kotamadya* Bogor and 8,358 in *Kotamadya* Tangerang).<sup>57</sup>

**Table 7.13:**  
**Annual Need and Supply of Land for Housing in Botabek (x1000)**

	1995-2000 (person)	Housing stock in 1995 (unit)	New Housing need per year (unit)	Replace ment per year (unit)	Housing need per year (unit)	Annual land need (hectare)	Land released up to 1997 (hectare)	Annual land supply (hectare)	Over supply (hectare)
	a	b	c	d	e	f	g	h	i
<b>Bogor</b>	170.00	1032.40	34.00	20.65	54.65	1.09	13.66	4.55	3.46
<b>Kod. Bogor</b>	3.16	66.28	0.63	1.33	1.96	0.04	0.18	0.06	0.02
<b>Tangerang</b>	159.44	563.14	31.89	11.26	43.15	0.86	21.77	7.26	6.39
<b>Kod. Tangerang</b>	75.79	278.67	15.16	5.57	20.73	0.41	1.52	0.51	0.09
<b>Bekasi</b>	188.00	646.53	37.60	12.93	50.53	1.01	9.51	3.17	2.16
<b>Botabek</b>	596.40	2587.02	119.28	51.74	171.02	3.42	46.64	15.55	12.13

- Note:
- Population growth between 1995-2000 who need shelter
  - With the assumption that all population in 1995 already housed = population 1995 ÷ 4.3
  - Population 2000 - population 1995 (a) ÷ 5 ÷ 4.3
  - Housing stock 1995 x 2%
  - Annual Housing need (c)+ replacement (d)
  - Total housing need per year (e) ÷ 50 units/hectare
  - Land already released (see Table 5.7)
  - Land released (g) ÷ 3 (With the assumption that land is released within the last three years)
  - Oversupply

<sup>57</sup>

See Table 5.7 in Chapter V.

It is true, however, that if the average formal housing supply of 26.2 thousand units per year in *Jabotabek* in 1993 (as shown in Table 5. 2) does not increase, the housing need, which is 171.2 thousand units per year (Table 7.13 column e) can not be matched. This condition creates a paradox; in one hand the annual supply of formal land for housing is already above the demand, on the other hand the supply of formal housing is far below the need. In practice the need for housing is mostly supplied by the informal or popular sector of housing production (see Struyk, Hoffman and Katsura, 1990). What the developers in the area do is basically banking the land for speculation and selling it mainly to the middle and high-income groups.

### ***Land Use Plan***

Unlike the experiences in America and Britain where suitability to the land use plan is considered as the most important factor for locational decision (Kaiser and Weiss, 1970; Drewett, 1973) since planning is viewed to restrict the availability of the location for housing development (notably, Monk, 1995; Bramley, Bartlett and Lambert, 1995; Monk and Whitehead, 1996; Eve, 1992), the suitability to the land use plan is not viewed as the most important factor in the study area. This is partly due to the absence of land-use plans of the area at the time when the developers were searching for land.<sup>58</sup>

The fact that some of the developers are connected to the previous first family,<sup>59</sup> is also part of the reason. This connection had enabled certain developers to influence the implementation of the Government's policy, by proposing amendments to the existing spatial plans or even by proposing a new spatial plan which could accommodate their interests under the co-ordination of the Local Planning Board.

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<sup>58</sup> The Spatial Plans for *Kecamatan* in *Kabupaten* Tangerang were prepared and approved after 1993 (Bappeda Tangerang 1995). Meanwhile up to December 1996 the Spatial Plan for *Kabupaten* Tangerang had not been approved. See Chapter IV.

<sup>59</sup> See Chapter VI

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*Accessibility*

For the developers in the study area, the accessibility as it is shown by the proximity to main road, public transportation, city centre and shopping centre, - contrary to the neo-classical belief in locational decision (notably, Alonso, 1964; Muth, 1969),- is not the important factor for locational decision. It is true that the development in the area had been started after the development of the toll road connecting Jakarta to Merak.<sup>60</sup> However, the toll road existence does not make journey to Jakarta, where most of the residents (60 per cent) work, any faster. As discussed in Chapter VI, the mode time needed for the residents to go to their work places is 120 minutes.

What has happened in the area is that the developers create other centres apart from Jakarta and a multiple sub-centres spatial structure. The developers are actually creating complementarity space that counteracts the centripetal force of the central area of Jakarta. It is true that most of the breadwinners of the households in the new residential areas work in Jakarta, but the rest of a household's members are not required to go to Jakarta because the developers have provided the facilities they need. In these circumstances, the trip cost for the household is significantly reduced because they do not have to pay for the time, fare and discomfort to go into Jakarta for shopping, education, entertainment and cultural activities. Moreover the households also gain the non-monetary benefits of security and locational prestige.

Accessibility is still an important factor for developers, but not for locational decision. Instead of finding locations close to Jakarta, or to other public facilities, the developers built the necessary services such as shopping centre, schools, market, hospital and offices in their housing projects to enhance the 'special accessibility' of the residents to public facilities. Most of the developers interviewed said that they provide shops in their projects, and even shopping

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<sup>60</sup> See Chapter V, Also Winarso and Kombaitan (1997).

centre, schools, offices and hospital in some others projects. The provision of such services, which could boost the price of the land in the project, because of economic of scale, is possible provided the developers had been able to acquire low priced land. By purchasing cheaper priced land, hence reducing the production cost, the developers have more opportunities to provide services, than if they have purchased more expensive land in locations which are closer to Jakarta.

### Land Bank

The sample survey reveals that the developers usually held around 60 per cent (mean 63.23 per cent, mode 60 per cent) of the area stated in Location Permit before starting the project. The survey also reveals that up to the late 1996 as showed in Table 7.14, only 13 per cent of the area granted under Location Permit had already been developed. This figure is just below the official figure which stated that only 14 per cent of area under Location Permit granted in *Jabotabek* had been developed.

**Table 7.14:**  
**Land Banking Practised by Some Developers (1996)**

	Project Name	Location	Area acc. to Location Permit	Land Hold at Project's start		Land developed now		Land Bank (ha)
				area (ha)	Per cent	area (ha)	Per cent	
1	Puri Beta	Jakarta	75	45	60	46	61.33	-1
2	Villa Dago	Tangerang	75	60	80	40	53.33	20
3	Palem Semi	Tangerang	80	64	80	35	43.75	29
4	Taman Kedoya Baru	Jakarta	80	68	85	80	100.00	-12
5	Medang lestari	Tangerang	100	85	85	30	30.00	55
6	Vila taman Cibodas	Tangerang	100	40	40	70	70.00	-30
7	Vila Pamulang	Tangerang	115	46	40	70	60.87	-24
8	Banjar Wijaya	Kod. Tangerang	120	96	80	60	50.00	36
9	Taman Adyasa	Tangerang	150	120	80	70	46.67	50
10	Kedaton	Tangerang	200	140	70	70	35.00	70
11	Kota Kembang Depok Raya	Bogor	300	150	50	100	33.33	50
12	Melati Mas	Tangerang	300	180	60	200	66.67	-20
13	Pulomas Jaya	Jakarta	350	350	100	300	85.71	50
14	Perumnas	Tangerang	450	450	100	450	100.00	0
15	Lippo Karawaci	Tangerang	500	300	60	500	100.00	-200

To be continued in the next page

**Table 7.14:**  
**Land Banking Practised by Some Developers (1996) (continued)**

	Project Name	Location	Area acc. to Location Permit	Land Hold at Project's start		Land developed now		Land Bank (ha)
				area (ha)	Per cent	area (ha)	Per cent	
16	Alam Sutera	Tangerang	700	210	30	195	27.86	15
17	Kota Modern	Kod. Tangerang	700	420	60	200	28.57	220
18	Telaga Kuripan Raya	Bogor	750	600	80	50	6.67	550
19	Gading Serpong	Tangerang	1080	486	45	400	37.04	86
20	Puri Jaya	Tangerang	1800	900	50	100	5.56	800
21	Kota Legenda	Bekasi	2000	1200	60	350	17.50	850
22	Bintaro Jaya	Tangerang	2300	230	10	700	30.43	-470
23	Citra Raya	Tangerang	2700	810	30	900	33.33	-90
24	Kota Tiga raksa	Tangerang	3000	2400	80	400	13.33	2000
25	Lippo Cikarang	Bekasi	5500	3300	60	1200	21.82	2100
26	BSD	Tangerang	6000	4200	70	1000	16.67	3200
27	Bukit Jonggol Asri	Bogor	33000	13200	40	0	0.00	13200
<b>Total</b>			62525			7616		
<b>mean</b>			2315.74		62.23		12.18	

Source: Calculated from interviews with the developers 1996

As illustrated in Table 7.15, the proportions of developed land to total area of land granted under Location Permit vary in each area with Tangerang being the lowest (5.7 per cent). At the same time, in Tangerang, the land that had been released amounted to 44 per cent of the total area under Location Permit. This means that the land being held by the developers (land released + land developed) is 50. per cent of the total area under Location Permit. These figures show the immense land banking practised by developers in this area.

**Table 7.15:**  
**Percentage of Location Permit Issued in Botabek Area, October 1996**

	Bogor	%	Tangerang	%	Kab Bekasi	%	Total	%
No of Location Permit	614.0		581.0		397.0		1,592.0	
Area (ha)	46,304.0	100	52,453.0	100	22,874.0	100	121,631.0	100
Land Released	13,846.0	29.9	23,287.0	44.4	9,506.0	41.6	46,639.0	38.3
Land with SKPH	3,151.0	6.8	22,188.0	42.3	1,420.0	6.2	26,759.0	22.0
Land With Master tile	2,840.0	6.1	10,721.0	20.4	1,405.0	6.1	14,966.0	12.3
Land developed	8,861.0	19.1	2,980.0	5.7	4,768.0	20.8	16,609.0	13.7

Note : Bogor = Kabupaten + Kotamadya ; Tangerang = Kabupaten + Kotamadya; Kab. Bekasi = Kabupaten Bekasi;

SKPH = Surat Keputusan Pemberian Hak (decree granting a right to land)

Master Title = Master title right for further split into individual title (see Chapter IV)

Source: Calculated from BPN quoted in *Properti Indonesia*, April 1997

Land banking is widely practised by developers. Ball (1983) for instance, argued that development of land with low historic value might allow some companies to reduce price and maintain sales in a downturn period due to the considerable gap between buying and selling prices. Several authors maintained that the size of companies has an important influence on the land banking activity (Short, 1986; Smyth, 1982). Monk (1991) quoted PIEDA (1986) who suggested that firms -in the UK -, tended to have at least two years supply of land. Developers in the study area are known to possess land holdings ranging from 15 hectares to 3,200 hectares, if it is assumed that the amount of land they had obtained when starting the project had not been changed (see Table 7.14). Assuming that 50 houses could be built on a hectare of land<sup>61</sup> and that the market could only absorb 26,000 houses per year,<sup>62</sup> the supply of land for further development, can last for a period between 0.3 month up to 6.4 years. These figures however, are not reliable since in practice the developers may have acquired much more land than what they have obtained when starting the project. The BPN (1997) figures as presented in Table 5.7 in Chapter V show the fact that from 21,765 hectares of land under Location Permit that had been released, only 2,306 hectares (10 per cent) had been developed. Thus by 1997, the companies in the area have actually accumulated a supply of 19,459 hectares of land which, at the calculated rate, would not be absorbed for the next 38 years.

### **Conclusion**

This chapter has considered the development process and the sequence of formal land development as well as the behaviour of the developers, particularly their responds to land price, distance to city centre and the availability of infrastructure. This chapter has also examined the extent of the supply of land for residential purposes in the study area.

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<sup>61</sup> See footnote no 32 in Chapter V.

<sup>62</sup> See Chapter V.



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*Evidence that Upholds the Hypotheses**The Important of Land Price*

Two kinds of evidence, which support the hypotheses of this study, were revealed. First is the evidence derived from the interviews with the developers which shows that most of them consider land price to be the most important factor influencing the decision of a site for a land development project. In the developers' opinion the importance of accessibility in locational decisions is of a lower priority. Secondly, there is evidence drawn from empirical analysis of the potential to gain more profit when the land purchase price is low. Comparison between buying price and selling price shows that the cheaper the price of the land for the developer, the higher the possibility for their profit. This is due to the fact that there is not a perfect market or a perfect knowledge of the prices in the market. The land price is boosted to the point where the price match with the 'expectation' of the market, which is considered as suitable for the buyer, by converting the formerly rural use into urban use and provide the site with service infrastructure and other amenities. Thus, developers have the possibility to gain super normal profits by exploiting the monopoly rent of the land they develop.

*The availability of infrastructure*

Evidence derived from the interview suggests that availability of infrastructure is not important for locational decision. This evidence is supported by the empirical analysis which shows that developers can benefit the increasing value added due to the instalment of basic infrastructure in the site. If the infrastructure is provided by the Government, the value added is captured by the landowners.

*The Supply of Land*

The possibility of gaining super normal profits has encouraged the accumulation of land by the developers. Analysis of their abilities to bank land reveals that up to 1997, developers had accumulated land which, at the rate then occurring, would not be absorbed by the market for housing for the next 38 years.

### ***The Developers' Behaviour***

#### ***Informal Activities of the Formal Developers***

One of the important patterns of behaviour of the developers in Jabotabek has been their informal activities. These informal activities start right in the beginning of the land development process with the lobbying of important persons responsible for planning and the issuance of permits to carry out land development. During the search for land, informal activities employ co-ordinators to contact *Calo tanah* to negotiate sales prices and assemble the parcels. Again, the use of personal and other informal relations with key persons, with possibilities for exchanges of favour, is also important in securing funds from different sources. With high ranking connections and positions in the ruling party, developers in the area have had the potential to use political connections to influence the granting of location permits and the changing or the making of spatial plans.

#### ***Creating Images***

The developers create demand by exploiting knowledge of the socio-economic use of the house, particularly by the young professional. In order to do so, developers employ well known foreign as well as domestic consultants and invest more in service infrastructure and other exclusive public facilities. Developers also use the project's name as a marketing gimmick.

#### ***The Growth of Financial Industry and the Benefit of the Economies of Scale***

A fast growing financial industry was apparent in the rise of private capital inflow to Indonesia and the increasing share value of the property industry at the time of this study. The capitalisation of the property industry also rose considerably. This condition was conducive to the land development practices which were the subject of this research, for it provided developers with a source of the very large funds they required, as shown by the enormous increase in the value of loans for property development.

The availability of large amount of capital and the access of developers to these capitals encouraged developers to embark on large-scale projects which could capture economies of scale and invest in significant amounts of service infrastructure. This in turn allowed them to capture all of the land value increases which could be created by urban use, including the high land values yielded by the business-use plots and those generated by high standard development with an unusual range of high quality public amenities.

### ***The Creation of Multiple Centres and the Formation of Price***

By providing public facilities and amenities such as offices and shopping centres in their projects, the developers created other centres in the region apart from Jakarta which act as counter forces to the centripetal pull of Jakarta. In these circumstances not all of each household's members are forced to make trips to Jakarta for their daily activities. Thus, the significance of transport cost to the central area of Jakarta for households in the new residential areas is less important than if most of each household's members' have to make daily trip to Jakarta.

The price of the new housing area created in these centres is not only dictated by the basic demand for the space on which to build a house with a garden. What increases the price more significantly is first the amenity values associated with the location, such as access to good schools, shops and other facilities (e.g. sport centre, clinic or hospital) built by the developers and second the image resulting from the level & quality of the amenities.

The provision of infrastructure and public facilities comparable in many ways to those of central Jakarta causes other peaks in the gradient of land prices at some distances away, reproducing at each of these other peaks to a lesser degree the monopoly rent conditions formerly enjoyed exclusively by the central area of Jakarta.

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The limited number of its suppliers and their close relationships, along with the persuasive advertising strategy used by the developers which give the buyers disproportionate amount of information about the projects distorting the buyers' knowledge of the market, eventually created an imperfect market for housing land in the region. This, together with the provision of facilities and amenities, which only central Jakarta can otherwise provide, allowed the developers to dictate the prices.

And they may seem to be offering some qualities of facilities and conditions which were not available elsewhere, including that of exclusiveness with its attractions of personal security, which itself was named in the top 10 of factors influencing buyers' decisions. The developer becomes a price maker rather than a price taker. The developers gained the ability to accrue super-normal profits from the economic rent of the land by raising the selling price, while the other costs were fixed.

## Chapter VIII

### Developers' Behaviour: Concluding Observations and Future Research

#### Introduction

Alongside the economic boom experienced in Indonesia during the 1980s and the early 1990s, remarkable land developments for residential purposes have taken place in the *Jabotabek* area. This has been visible in the ability of the formal private-sector developers to sell an average of more than twenty five thousand housing units annually<sup>1</sup> and to transform 16.6 thousand hectares of land into residential areas within 20 years alone.<sup>2</sup> The accomplishment is more fascinating if the great distance separating these land developments from the built-up area of Jakarta is considered.

This research examined the seemingly unconventional behaviour of the large developers in selecting the location for their residential developments, for due to this behaviour, diseconomies of agglomeration and the threat to agricultural land increases. Approaching from a behavioural point of view, a study of the development process reveals that the locational decisions of the developers in the area are explainable. This, however, should be elucidated in the context of the history of urban development in the area, taking into account the rapid economic development brought about by the series of deregulation policies during the 1980s and the early 1990s.<sup>3</sup>

The study was designed to assess the behaviour of formal private land developers in developing land for housing, particularly their response to land price, accessibility to centres of activities and the availability of infrastructure for their projects.

The main hypothesis of this study is that, in the advent of economic liberalisation

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<sup>1</sup> See Chapter V, in particular Table 5.2.

<sup>2</sup> See Chapter V and VII, in particular Table 5.5 and Table 6.13.

<sup>3</sup> See Chapter V.

in *Jabotabek*, land price has been the most important factor for locational decisions. Among other consequences, this has led to the accumulation of low-cost raw land by developers, which profoundly influences the supply of land for shelter in the region.

To fulfil the objectives of the study, an exploratory research strategy was used when investigating the behaviour of residential land developers. The method adopted was a case study approach with *Kabupaten* Tangerang as the chosen area. Data were collected from a number of sources. In-depth interviews were conducted with 34 persons including directors and vice directors of land development companies, experts and Government officials. Interviews were also administered to 232 households in 15 residential projects in *Kabupaten* Tangerang. In addition, a great deal of information on the ownership of these companies was gathered through Internet.

The first section of this final chapter reviews the major points of previous chapters. It is then followed by the implication of the developers' behaviour on the policy and suggestions for areas for further research.

### **Findings of the Research**

The findings focus on the major aspects of the objectives and hypothesis of this study. In particular these are to:

- (a) assess the response of formal private land developers to land price
- (b) assess their response to the availability of infrastructure
- (c) assess their response to the accessibility to centres of activities
- (d) assess the extent to which the locational decisions of these developers impacts upon the supply of residential land in the region

In addition, the conditions that encouraged unique behaviour of these developers are presented.

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***The Importance of Land Price***

The traditional notions of locational decision determinants maintained that there are three major factors determining the locations for residential land uses: (1) accessibility (e.g. Alonso, 1964; Muth, 1969; Mills, 1969) (2) environmental and social characteristics (e.g. Richardson, 1978; Fujita et al., 1999; McDonald, 1979; Evans, 1985; Harvey, 1996; Neutze, 1987; Wiltshaw, 1983) and (3) rent. A trade-off between accessibility and social and environmental characteristics against rent has been noted.

The available literature, which are mostly British and American, mainly focus on the relationship between accessibility and the value of land. Although it is acknowledged that the pattern of this relationship is different in monocentric and in multiple centres (Fujita et al., 1999; McDonald, 1979; Harvey, 1996), the literature usually treats distance to centres of activities as the most important factor in selecting a site for residential development (Evans, 1973; Muth, 1973). The traditional views of locational decision determinants typically assumed a dynamic market for land and housing which achieves a stable equilibrium in which supply is equal to demand. As such, this approach posed a problem as it failed to explain the diverse forms of demand, particularly the difference between user's and investor's demand. It also failed to address the very considerable uncertainty in assessing future gain, due to the time scale of the development process, the limited number of transactions in land and property markets, and the complexity of the development process itself. Hence it did not consider land price as an important locational decision determinant.

On the contrary, the evidence gathered in this study suggests that land price is the most important factor influencing the locational decisions of the developers in the *Jabotabek* area. The main reason for this is the possibility to gain super normal profit when developing on a large scale and converting rural value land, which is cheap, into urban land of urban value, which is very expensive. By constructing major infrastructure and service facilities (i.e. main roads, drainage, sewerage, electricity networks, telephone systems, parks, gardens, schools, clinics, offices,

and hospitals), developers enjoyed not only the value added beyond costs to the land's selling price due to the possibilities for urban use after the installation of basic infrastructure, but also the value gained beyond building and site services costs in the selling price of a house caused by the demand for urban shelter with the qualities created by these developers. Furthermore, the evidence suggests that, with low priced land, the developers were able to achieve economies of scale. This, in turn, minimised the development cost to the extent, that when they provided the infrastructure and service infrastructure, the differential rent they enjoyed could be maximised.

***Basic Infrastructure, Distance to Centres of Activities and Planning.***

The conventional wisdom argues that the location of residential development has to be explained by its relation to jobs or centres of activity (Archer, 1992; Drabkin, 1977; Alonso, 1974; Evans, 1973 and 1983) and that land suitable for urban uses is that which is easily connected to metropolitan roads, drainage, water supplies and electricity supply networks (Archer, 1992; Greer, 1979). These notions should be looked at carefully because they were based on the assumption that basic infrastructure will be provided by the Government. Moreover, they were formulated in circumstances where planning regulations (zoning or other development control regulations) are fairly strictly implemented, which is not the case in developing countries (Lee, 1994; Dowall, 1991; Fergusson and Hoffman, 1993).

This research found that large developers in its study area preferred as locations for their projects low-cost land without infrastructure and at a considerable distance from the built-up area of Jakarta rather than more expensive land which is closer to Jakarta. Accessibility and infrastructure were still important factors for these developers, but not for their locational decisions. Instead of seeking proximity to Jakarta, or to other public facilities, the developers built the necessary services, such as shopping centres, schools, markets, hospitals and offices in their housing projects to enhance the 'special accessibility' of the residents to public facilities.



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The developers were able to find cheaper priced land at a considerable distance to Jakarta, either because there was no spatial plan that designated a non-agriculture use for the area or because the developers felt capable of influencing the changing or the making of the spatial plan in the area. Planning, it seems, did not pose a real constraint for developers.

### ***The Land Supply***

The research found that developers' activities to find low priced land increased the supply of land for residential development far beyond the demand. At the time of the study, there was a supply of land for shelter that would be enough for the next 38 years.

The investment in land became very considerable, with most investors relying on the domestic as well as foreign bank loans which became accessible after the series of economic deregulation policies in the 1980s and the early 1990s. Investment in land when there is actually already an over-supply creates burdens for developers. Such additional investment easily turns into an idle investment. In the *Jabotabek* area, the loans to the property sectors become so high and unproductive that they easily became a bad debt, affecting the economy of the country as a whole.

### ***The Behaviour***

The behavioural approaches formulated in the UK and the USA attempt to explain the land development process in the wider socio-economic and institutional framework of a particular society. Hence they provide a starting point to understand the relationship among the actors in land development process. However, their study (notably Kaiser, 1968; Goldberg, 1974; Weiss et al., 1966; Carven, 1968; Drewett, 1973) were done in a different atmosphere from what had happened in the *Jabotabek* area where regulation and planning regulation are ineffective and where the economic were growing quickly.

This study found that the closeness of the developers to the political elite of the

country and the many interlinkages of shareholdings among their companies - some of them as the result of family relationships - have given them the possibilities to influence, in an informal way, any relevant policy and regulation concerning land development in the area. Added to the weak enforcement of the regulation, the strong influence of developers through informal channels upon the making of spatial plans has made the use of spatial planning for directing the land development largely ineffective. These circumstances, together with the availability of large amounts of capital and the access of developers to this capital, enabled the development companies studied to embark on large-scale projects involving enormous areas of land and investment in substantial service infrastructure which could capture economies of scale.

#### *Informal Activities*

Although literature on land development processes in developing countries mostly focuses on the low-income segment of the market including that which is informal (notably; Angel et al., 1983; Turner, 1967, 1972; Payne, 1977; Baross and van der Linden, 1990; Baken and Van der Linden, 1992), on the role of the state/Government and the issues of access to land for the poor (Angel, et al., 1983; Durand, 1990; Farvaque and McAuslan, 1991; Devas and Rakodi, 1993), or on policy instruments for land management (Archer, 1992, 1994; Devas, 1983, Yap and Angel, 1992; Dowall, 1991), it suggests that more informal processes in land development exist and can often serve politically influential groups (Dunkerley, 1983; Gilbert and Ward, 1985; Thirkell, 1994)

The literature also suggests that the informal processes in land development in developing countries may be the result of the immature planning and housing policy instruments (Rakodi, 1996, Baken and Van der Linden, 1992) This informality has been associated with those activities in the land development process which take place outside the legal system. (Angel et al., 1983). As noted by Jones and Ward (1994), the informal process often means bribery, corruption, evasion of legal restrictions and the arbitrary use of power.

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In *Jabotabek* these informal activities were aspects of the behaviour pattern of the formal developers. It started by approaching key persons in the administration who were responsible for the preparation of spatial plans and those who were responsible for issuing permits for land development. Developers may use informal political connections to facilitate the granting of location permits and the changing or the making of spatial plans. Through these informal activities developers were able to secure land at a considerable distance from Jakarta not yet intended for urban purposes where the prices reflected only their value for farming. This personal approach, with possibilities for exchanges of favours, was also important when securing funds from different sources for financing their large-scale development.

#### *Images Making*

One of the important patterns of behaviour of developers in the area was the ability to create demand by exploiting knowledge of the socio-economic use of the house, particularly by the young professional. There is the evidence that accessibility to city centre was not the most important consideration when buying a house in the region. To create the preferred image the developers strategy was to provide attractive public facilities. Good schools and shopping centres were the selling points as these facilities formed the impression as a well-planned high quality residential area. To ensure attractive qualities, developers employed well known foreign as well as domestic consultants and paid for higher standards in service infrastructure and other exclusive public facilities. Developers also used the project's name as a marketing gimmick. Again, this behaviour, which obviously increased the cost of development was easier to afford because the total cost were kept minimum by acquiring large size low priced land which, at the end, generated the economies of scale.

By creating images that sell their products, developers are able to price land at its highest and best use. Buyers are enticed to take a house for its image rather for its shelter function.

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### *The Facilitating Conditions*

The greater importance of land price and the lesser importance of the presence of basic infrastructure and the distance to centres of activities as locational decision determinants for the developers in the study area have to be explained in relation to certain conditions.

#### *Unsound Land use Regulation*

The use of a spatial plan for directing land development has been largely ineffective due to its weak enforcement and the strong influence of the developers in the making of the spatial plans. The Location Permit, which is arguably a good tool, has been abused. This is particularly visible in the treatment of the Location Permit as a pre-emption right by some developers to force the small landowners to sell their land at a lower price.

The evidence shows that the possession of location permits by developers has caused land markets to operate abnormally, creating a significant amount of vacant land and enabling the developers to bank excessive area of land. The abuse of this permit has made it possible for most of the supply of lands for shelter to be controlled by a few developers, encouraging a speculative land trading.

#### *The Financial Industry and the Economies of Scale*

As suggested by the literature, the land development process in developing countries is susceptible to fluctuating economic situations and political chance (Durand-Lasserve, 1990; Rakodi, 1994; Batley, 1993; Baken and Van der Linden, 1992). At the time of the study, Indonesia experienced a sound economic growth at a rate of around 6 per cent annually. This was reflected in the growth of financial industry by the apparent rise of private capital inflow and the increasing share value of the property industry. The deregulation policies of the Government, which allowed the entry of more foreign banks, contributed to the increasing financial liquidity in the market. This condition was conducive to the land development practices in Jabotabek, for it provided developers a source of the very large funds they required. The growth of this property business was

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shown by the enormous increase in the value of loans for property development.

The readiness of large amounts of capital in the market and the access of developers to this capital enabled developers to launch large-scale projects that, on one hand, reduced the cost per property of infrastructure due to economies of scale. On the other hand, it provided the chance for the developers to capture all of the land value increase due to the transformation of the use of land from rural to urban. This included the high values yielded by the business-use plots and those values generated by high standard development with an unusual range of high quality public amenities.

#### *The Creation of Multiple Centres and the Formation of Price*

These development companies effectively created other centres in the region apart from Jakarta by providing offices, shopping centres and major public amenities in their projects. Each of these centres acted to counteract the centripetal pull of Jakarta. The provision of these public facilities and amenities has obviously reduced the number of household trips to Jakarta for daily activities because not all member of the household are forced to make such a trip. This has reduced the significance of transport cost to the central area of Jakarta for households in the new residential areas, explaining why distance to the city centre was not important in the locational decisions of the developers studied.

Scholars argue that factors determining land and housing prices at a local level include local economic development, employment opportunities and environmental quality of the neighbourhood (Evans 1983, 1985). If those factors appear at the same time in one particular place, then a monopoly rent condition occurs and the price can possibly be charged independent of either the price of production or the value of commodity (Harvey, 1973). By providing in their project the quality infrastructure and amenity values associated with the location, such as access to good schools, shops and other facilities (e.g. sport centre, clinic or hospital and offices), developers in *Jabotabek* were able to create a situation whereby such monopoly rent conditions could occur. In effect, this situation

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creates other peaks than the central area of Jakarta at some distance away in the gradient of land prices.

The evidence suggests that the developers were, deliberately or not, operating in an oligopolistic land and housing market. This is because they were limited in number and interrelated through shared ownership of companies and family connections. It also suggests that the buyers' knowledge of the market was distorted in that buyers were given a disproportionate amount of information about the large scale residential developments through 'brain washing' advertising and the internal marketing strategy used by the developers. Together with the monopoly rent conditions of their projects, this allowed the developers to 'dictate' prices. The developer became a price maker rather than a price taker and gained the ability to accrue super-normal profits from the economic rent of the land by raising the selling price to the maximum the market would fetch, while the other costs were fixed.

### **Contribution of the Research**

#### ***Conceptually***

##### *To Locational Decision Theory*

The finding that land price in this case was more important than physical distance to city centre or to secondary centres contributes to locational decision theory for land development. This study has shown that for land developers, the suppliers of residential places, the usefulness of raw land for residential development can be determined by its price rather than by its distance to city centre or secondary centres or the availability of basic infrastructure. That is to say that in particular case of *Jabotabek* and these large scale developers, the cheaper the price of the land the more suitable was the land for residential development.

The finding revises the traditional notion of the 'market based' residential location, which asserts that private sector housing locations should be explained by travel cost minimisation. The traditional notion is based on the 'economic competition' hypotheses which sees that the ability to pay is the basic factor and

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consequently the journey to work and site cost are the major considerations in the residential location decision (Carter, 1990; Hurd, 1903; Alonso, 1964; Muth, 1969; Evans, 1973).

#### *To the Behavioural Approach*

Behavioural studies on the locational decision factors (notably Kaiser, 1968; Goldberg, 1974; Weiss et al., 1966; Carven, 1968; Drewett, 1973), were done in developed countries. They argued that due to restricted information, developers operate in a highly uncertain investment environment. Experimentation, monitoring and learning thus become important, and that makes a 'process view' more appropriate than a 'market view' on land development (Monk et al., 1991). Thus, for behaviourists the process of creating a spatial variation in an economic activity is more important than its pattern. Behaviourists also stress the non-optimal behaviour of entrepreneurs and attempt to produce alternative theories to those based on 'economic man' (Healey, and Ilbery, 1996).

The behavioural approach used to examine the particular case of *Jabotabek* in this study has been able to explain the motives and behaviour of the agents involved in land development in the area. It has also been able to explain the process whereby the spatial pattern of *Jabotabek* area was created. Because this study was done in a developing country, it enriches behavioural research into the land development process by demonstrating an application of this approach in very different circumstances from that in which it is normally used. In particular this study illuminates the behaviour of developers when operating in a fast growing economic condition where large amount of credits are available, and in a condition where informal activities, which sometimes are associated with bribery and the misuse of power, are apparent.

#### *Empirically*

This research examined the supply side of residential land development in a developing country, an edge that is almost neglected in studies on urban land development. Its quantitative analysis has shown that the supply of land for

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residential development reached an enormous proportion in *Jabotabek*. It has also shown that when need for housing is converted to need for land, the annual supply of land becomes far above the real need.

Developers, as suppliers of land for housing, have demonstrated that, provided they were able to build urban service facilities in their residential projects, accessibility to urban centres and the availability of basic infrastructure become of little importance to them.<sup>4</sup> In making a locational decision, the low price of land is much more important than its physical distance to the city. This reality should contribute to the revision of strategies for directing and managing urban growth based upon the assumptions which it challenges.

### **Policy Implications**

#### ***On Land Management***

One of the widely accepted policies for managing and directing urban growth is that the provision of the necessary service infrastructure in a planned area was to direct future development (Dowall, 1991). This policy is based on the premise that land to be used for residential, industrial and such other purposes must have urban facilities. Thus the most suitable land for this kind of development would be that with connections to urban infrastructure (Archer, 1992; Devas, 1993), and which has a good access to urban activities. Due to the great cost of infrastructure development, the provision of major facilities and major elements or systems by the Government is usually essential. The latter is believed to have two benefits: it cuts the initial development cost for the developers and it directs private development to particular location (Billand, 1993; Mattingly, 1996; Dowall and Clarke, 1991; Devas, 1993).

One of the policies resulting from that belief was the introduction of Guided Land Development (GLD) in Indonesia, which was aimed at accommodating the rapid

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<sup>4</sup> The assertion that accessibility to urban centres is less important for developers complementing Small's (1993) study on the Job-Housing relation in Los Angeles, which suggested that journey to work play only limited role in residential locational choice (see also Wachs et al.,



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urban population growth. GLD is basically a land management technique to guide the conversion of urban-fringe land holding from rural to urban use (Archer, 1993). Under this scheme, the Government guides the development by laying out minimal infrastructure lines in certain locations so as to attract private land subdivision and self housing construction (Devas, 1983). The initial GLD proposal in Indonesia was for an area of 9,250 hectares in *Jabotabek* (*Jabotabek Development Plan Report 1985*). GLD was also proposed for eleven projects in *Kabupaten* Tangerang in an average of 40 hectares per site (West Java Urban Development Report, 1985).

The research shows that in a rapid economic growth as experienced in the *Jabotabek* region, the laying-out of the infrastructure in such a large area could increase land price to the point where the potential for profit for land subdivision and development by private sector companies is less in comparison to alternative investments. Therefore, a policy such as GLD could fail to direct urban development as suggested and could create a reversed effect for large residential development by private sector companies, which are after cheap land. The introduction of GLD could repel new investment in the area.

At a more general level, the research shows that rapidly growing economic and financial markets as well as unsoundly regulated land market and land development attracted developers to use a strategy of reaping the benefits of converting rural land directly into serviced urban land, resulting in land development patterns that are not in accordance with Government's development aims. It would be wise for policy makers to take this tendency into account.

### *On Development Control*

In Indonesia, a Location Permit is granted by the Government to acknowledge that the proposed location for development by private developers is in line with the Government's social and economic policy and conforms to the land use plan.

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The theoretical advantages of this permit are that it provides a mechanism for land assembly and enables the Government to make an early intervention to the activities of private developers to ensure that their schemes are in line with public policies, such as the construction of low-cost housing.

This research shows that, due to the excessive opportunity that the developers have to influence the policy making through personal or political connections, the development control system is jeopardised. This is particularly visible in the implementation of Location Permit procedure. This research, complementing existing critics on the implementation of Location Permit (Struyk, Hoffman, Katsura, 1991; Leaf, 1991; Ferguson and Hoffman, 1990), shows how the Location Permit has been misused by some large developers as a pre-emption right, enabling them to push landowners to sell the land for the benefit of the developers. The misuse of this permit also enables a few developers to control most of the supply of land for shelter in the area, which tends to encourage speculative land trading, and as revealed by the research, this can lead to an excessive ownership of land by a limited number of developers which results in an excessive supply of land for shelter.

This finding implies that there is an urgent need for the policy makers to review the applicability, not only of the Location Permit process, but also of the entire spatial planning procedure on which the Location Permit is based. If the negative effect of this land use regulation system is greater than the benefit, considerations should be given to replace it with a new one which:

- accommodates the interest of small landowners (e.g. allows them to sell the land to third parties freely)
- intervenes to curb the excesses in the land market
- pressures developers to build reasonably quickly so as to avoid the excessive accumulation of vacant land
- gives Government more power to review the development progress of the holder of a permit.

**Suggestions for Future Research**

Behaviourists are seeking for generalisation based on what actually occurs at the individual level. Emphasis became centred on a wider range of variables that help shape patterns of economic activity including motives, values, preferences, perceptions and opinions, (Healey and Ilbery, 1996). This research has been able to highlight the behaviour of large developers in a fast growing urban area and in a period of sustained economic growth. It is not known, however, to what extent this behaviour changed when the economic circumstances changed, as has been happening since 1977 in the region.

Moreover, due to its time and budget constraints, this study was focused on the behaviour of large developers only. An investigation which includes the smaller land developers and a study of the behaviour of developers in this downturn period would no doubt be able to reveal the differences in behaviour between large and small developers and, therefore, would be able to help the generalisation of the behaviour of developers.

There is still a lack of knowledge of the impact of large land development on the economic of a country. What is commonly believed is that the rapid economic growth would create a strong demand for urban housing and that the supply by the dynamic private sector would constantly in search of new markets (Yap, 1996). This present research generally suggests that over investment in land could be disastrous for the economy of a country as a whole especially when there is no sound loan management. There is a greater need to understand the impact of land development on the economic condition of a country. A thorough study on the impact of land development on the economic condition of a country is also one possible topic for further research.

The tendency of monopolistic form in land speculation throughout the third world countries has been indicated by scholars (notably Devas, 1983; UNCHS, 1984). One result of this tendency has led to market imperfection and unnecessary

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increases in the price of land (Baken and Van der Linden, 1992). This, combined with the shortcomings in Government's functioning have made the land hardly affordable to low-income groups (Baken and Van der Linden, 1992).

This research indicates that a large-scale land development activity in the area influenced the supply of land for low-cost housing development. However no detailed analysis on the impact of this development to the poor had been carried out. Therefore, assessment of the impact of such massive land development on the low-income people would also be beneficial.

## ***APPENDICES***

## **Appendix 1**

### **DATA COLLECTION AND SURVEY ADMINISTRATION**

#### **Sources of Secondary Data**

##### ***Data on Residential Projects and Companies in Kabupaten Tangerang***

The first important data collected for this study was the number and identities of developers and their projects in the study area. Unfortunately there were no readily available data. Data from the development permit granting institution - the local planning agency, or Bappeda - was not accurate, because the names of the (what of?) the projects did not match the name of the companies applying for the development permit. Most of the projects were obviously using several names when applying for location permits.

Another institution with data was REI (The Indonesian Real Estate Association). However, REI data were not reliable because the names of developers were not the same as those held in Bappeda. Apparently this was because the registered developers in REI *Kabupaten Tangerang* branch were parent companies, and most of the developers associated with residential development in *Kabupaten Tangerang* were the subsidiary companies.

The third institution with data was the National Land Agency (BPN), but data acquired from it was much more puzzling. Data held by BPN was on the companies which had had been granted location permits. These companies were not necessarily developers; most of them were apparently land companies obtaining location permits for speculation to be sold to other developers.

Considering those facts, it was decided to look at the number of projects first and then looked at the names of developers. Data were constructed based on report published by a prominent property consultant (Panangian Simanungkalit), a property magazine (Majalah Properti Indonesia) and the available data from Bappeda and REI and BPN. The five sets of data were compared, and similarities

in names and addresses were identified. From 86 residential projects noted in the property magazine, only 60 could be traced. These 60 projects were selected because the address, the name and the size of each were known (e.g. were found in the article or in the advertisement in the magazine or other newspapers and listed in the other sets of data). Data from property magazines are more reliable because the magazines showed the location of the projects and the addresses of the companies.

Those 60 names were plotted on map at a scale of 1: 50.000 acquired from Bappeda *Kabupaten Tangerang*. Based on this map, the linear distance of each project to Jakarta (it was assumed that The National Monument was the centre of Jakarta's CBD) was estimated (the actual road distance was sometimes far greater than the linear distance). The list of projects, locations, distances, and sizes of projects together with the companies' and parent companies' names is presented in Table 6.2. It was found from the final list that actually more than half the developers were under a small number of parent companies. Based on this table, developers who developed land on a size of 50 hectares or more were selected for studying. The result is presented in table 3.3.

#### ***Data on Location Permits***

Several sets of data were obtained from the BPN for each level of government (Central, Provincial and Local Government), and each set presented conflicting information. Fortunately, in November 1996 the BPN of *Kabupaten Tangerang* had just finished the final draft of data on the issuance of location permits as part of national project to re-record the granting of location permits. This was a comprehensive list which provided information on the names of companies, their locations, sizes of the granted location permits, dates of the issuance of location permits, sizes of lands that had been acquired by the companies, titles of lands, and sizes of lands that had been developed. The list showed that up to October 1996, 307 companies acquired location permits ranging from 0.37 hectares to 900 hectares. Some companies' names appeared several times in the list. Although, the list did not show the difference between land development companies and

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land holding companies, it, nevertheless, provided invaluable records of the issuance of location permit. This data was used as basic data for location permit.

### ***Data on the Profile of Companies.***

Data on the profiles of companies was gathered from bank reports, investment bank reports, reports published by the Business Data Centre, magazines and newspapers and the Capital Market Directory published by Jakarta Stock Exchange in 1994. Each source of data provided pieces of information on the shareholders of a company or on connections between individuals who own large shares of big companies.

A substantial amount of information was also acquired through the Internet. This was in the form of online newspapers or magazines and reports provided online by property consultants or the developers' web-sites. The particular information sought was the history and the assets of the companies and the shareholders' names.

Based on that information, a map of the connections between the developers was constructed. The result is presented in Table 6.6. The picture this created was politically sensitive at that time, for such diagrams were very rarely accessible to the public. . Even some sources of data, such as bank's officials, warned that this picture should not be published.

### ***Data on land prices***

There were no available reliable official data on land price. The BPN did have some data on land price for some areas for the purpose of land taxation. But not only did this data cover only a limited area, the land prices presented was also lower than actual market prices.

Data on land prices in 1996 used for this study largely relied on several sources. These included: published bench mark valuations from a prominent property consultant, price lists published by several developers and price lists obtained



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from property magazines or newspapers. Land selling price lists by developers usually presented different prices for different types of houses. If there were different prices, the median of the two extremes was used. After scrutinising the available data, it was possible to construct land prices after development for only 48 developers in *Kabupaten* Tangerang, *Kabupaten* Bekasi, *Kabupaten* Bogor and Jakarta. The result is presented in Table 7.11.

### **Interpretation and Assumptions**

Given the quality of data, several points of assumption and interpretation should be born in mind. Firstly, it was decided to treat a subsidiary company as an individual developer on the grounds that everyday decisions, including the decision to buy lands were made by the subsidiary company. Parent companies were not involved in such a decision. They were more concerned with the management of the companies.

Secondly, information on a developer's assets as presented on its web site or in the capital market directory was assumed to have been marked up to improve the company's performance in the capital market. However, this data provided a good picture of the assets of the company.

Thirdly, it was realised that the land prices stated in some of the data, particularly from the bench mark valuations and from the property magazines, were slightly above the actual market price. However, the distortion of this price was kept to a minimum by comparing it with data obtained from developers' price lists whenever possible. Nevertheless, there is the possibility of a distortion in the results of the use of only the median of land prices.

### **The Survey**

#### ***Survey of the Developers***

Once the list of those who developed land on a site of 50 hectares or more and their projects had been established, as presented in table 3.3. 28 developers were

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selected on the basis of the ease of access the author was likely to have to those developers.

To arrange an appointment with the developers, several steps were taken:

1. A letter was sent four weeks before the proposed date for interview from the Department of Regional and City Planning, Bandung Institute of Technology stating that the author, a lecturer in the Department, was conducting research for his PhD and would like to carry out an interview, and it asked for full co-operation.
2. Second letter was sent from the author, asking if the first letter had been received..
3. Telephone calls were made to arrange a meeting. Several calls were needed before an agreement to meet with the director or vice director could be reached.
4. The chairman of Bappeda *Kabupaten* Tangerang was asked to developers on behalf of the author. This made easier the approach to some developers.

Although 28 developers were selected, only 21 developers responded positively and gave time for an interview. The interviews were usually for two hours.

The interview with Ciputra was conducted on the occasion of a seminar because, more than two months after the first letter, there was still no confirmation of a meeting. The author stole time in a press conference with Ciputra after the seminar.

The other interviewees responded very positively and directly agreed to give time for interviews. With some of developers and with the analysts, the author conducted two or three additional unstructured interview to cross check the information obtained earlier.

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Except with Ciputra, all interviews were conducted in the offices of those interviewed.

### ***Survey of the Buyers***

The survey of the buyers was more complicated than the survey of the developers. Using the criteria and sampling procedure presented in Chapter II, it was decided to interview representatives of 250 households. With the help of 25 architecture students of the Institut Teknologi Indonesia, 250 households were interviewed using questionnaire. Before the actual survey, a series of meetings with the students were conducted to train them in the interview procedure. The meetings were also aimed at familiarising the students with the questionnaire.

The approach to the household interviews involved following steps

1. A survey permit was applied for at the Social and Politics Bureau of the West Java Province, using a reference letter from the Bandung Institute of Technology (this procedure took two weeks).
2. With the survey permit issued by the Social and Politic Bureau of West Java Province, the author contacted the Social and Political Bureau of Kabupaten Tangerang which provided the author with letter to be shown to a household or the head of the neighbourhood before conducting the actual interview (this procedure took one week).
3. A letter from the Bappeda was obtained to be presented to the interviewee.
4. A letter from the Head of the Architecture Department of Institut Teknologi Indonesia was obtained, stating the names of the students who would conducted the interviews.

The questionnaire was developed in Bandung and pilot-tested on some households in Bandung in order to check the accuracy of the questions and to see whether the questions could be correctly interpreted by interviewees.

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For the purpose of checking the work of the students, the author conducted second interviews with some of the households selected. Most of these confirmed that the original interviews had been conducted properly. Nevertheless, only 232 questionnaires were entirely completed.

## Appendix 2: Questionnaire for Developers

**Department of Regional  
and City Planning  
INSTITUT TEKNOLOGI BANDUNG**

**Developer's Data**

No :     
Code :

Interviewer : .....

Company's Name : .....

Project's Name : .....

Proposed Area : ..... Hectares

Developed Area : ..... Hectares

(I) Date : .....

(II) Time : .....

(III) Place : .....

(iii) Interviewee : .....

Title : .....

Position : .....

**(To be read by interviewer)**

*Dear Sir/Madam*

*Thank you for giving me the time for this interview.*

*I (name) from the Department of Regional and City Planning ITB is conducting survey for a research on Developers' Behaviours on Residential land Development in Jabotabek. The aims of this survey are to seek the reasons why the developers locate the project(s) in certain location, and to seek the developers' effort in providing public facilities such as job places, shops, security, etc.*

*We would like to ask you some questions using this questionnaire. There are two types of questions in this questionnaire. Firstly, are questions, which would require you to choose one or more answers from the available answers in cards that I will show you. Secondly, are questions which require you to answer freely, this could be an opinion or a suggestion*

*This survey is confidential, therefore data gathered from this survey will be treated as confidential information. The result will be used only for academic research. We hope that you would be able to help us by giving the answers which represent your project(s).*

**SECTION A : DEVELOPER'S CHARACTERISTICS**

1. (SHOWCARD NO I)  
What is the type of your company?
  1. Public
  2. Private
  3. Public and Private Consortium
  4. Private Consortium
2. How long has your company been engaged in land development activity? ... Years from 19...
3. How many house units, in average, your company build in a year? ... Units/Year
4. How many residential projects has your company been carrying out? .... Projects
5. Has your company ever received awards for land development?  
Please explain ...
6. (SHOWCARD NO II)  
How many employees does your company have?
  1. < 50 person
  2. 51 – 100 persons
  3. 101 – 150 persons
  4. 151 - 200 persons
  5. 201 – 250 persons
  6. > 251 persons
7. Could you please elaborate?
  1. Executive (example: Director, Head of Department) ... Person
  2. Professionals (example: Planners, Architects, Civil Engineers) ... Persons
  3. Others ... Persons
8. Did your company use consultant(s) for preparing this project's master plan?
  1. Yes
  2. No
9. If Yes, which type of consultant(s)?
  1. Foreign Consultant
  2. Domestic Consultant
  3. Foreign and Domestic Consultant
10. Did your company carry out the construction?
  1. Yes
  2. No

11. Did your company carry out the following activities?

1	Land release	1 Yes	2 No
2	Land clearing	1 Yes	2 No
3	Land construction	1 Yes	2 No
4	Building/housing construction	1 Yes	2 No
5	Landscaping	1 Yes	2 No

## SECTION B: PROJECT'S CHARACTERISTICS

### I. Project location

14. (SHOWCARD NO III)

Please state your agreement or disagreement on the following statements:

SA = Strongly Agree;

A = Agree;

U = Undecided;

D = Disagree;

SD = Strongly Disagree

a. Low land price was the most important factor influencing the locational decision for this project

SA	A	U	D	SD
1	2	3	4	5

b. The availability of large area of land for development was the most important factor influencing the locational decision of this project

SA	A	U	D	SD
1	2	3	4	5

c. Proximity to CBD (in Jakarta) was the most important factor influencing the locational decision of this project

SA	A	U	D	SD
1	2	3	4	5

d. Legal ownership status of the land was the most important factor influencing the locational decision of this project

SA	A	U	D	SD
1	2	3	4	5

e. The availability of basic infrastructure was the most important factor influencing the locational decision of this project

SA	A	U	D	SD
1	2	3	4	5

15. (SHOWCARD NO IV)  
Please choose from this list, the three most important factors influencing your decision to find suitable location for your project(s):

Factor	First (1)	Second (2)	Third (3)
Market demand (in the location)			
Environmental quality (scenery, pollution free)			
Land price (the cheaper the better)			
Land status			
Land use planning (the location is designated for residential)			
Availability of piped water			
Proximity to city centre			
Proximity to other residential project			
Availability of electrical networks			
Proximity to main road			
Proximity to public transportation			
Proximity to shopping center			
Proximity to a good school			
Permit procedures			
Possibility to create a regional center			
Land availability			
Other (please specify): ..... ..... .....			
Total			

16. From the above list, please list the three least important factors:  
 1. ....  
 2. ....  
 3. ....
17. Do you consider the permit procedure when choosing location for your project(s)?  
 Please explain your answer. ....



**II. Public Facilities in the Project**

18. (SHOWCARD NO V)  
Please choose from this list, the three most important public facilities that must be provided in your project(s) beside water and electricity network?

Factor	The most (1)	Second most (2)	Third most (3)
Golf Field			
Good School			
Places for Informal Traders			
Traditional market			
Good Park			
Affordable House Price			
Work Place			
Shopping Centre			
Good Accessibility to City Centre			
Good Housing Security			
Proximity to families/friends			
Other			
na			
<b>Total</b>			

19. Do you consider providing simple houses in your project(s) only to satisfy Government's regulation?

Explain your answer please.

20. What is the benefit of providing simple houses in your project(s)?

21. Can your company build simple houses without reducing the company's profit?

**III Land**

## 22. (SHOWCARD NO VI)

Could you please state your agreement or disagreement on the following statements

SA = Strongly Agree;

A = Agree;

U = Undecided;

D = Disagree;

SD = Strongly Disagree

a. Low land price could maximise profit.

SA	A	U	D	SD
1	2	3	4	5

b. Land close to basic infrastructure (electrical and water network, road) is too expensive for this project.

SA	A	U	D	SD
1	2	3	4	5

c. For this project, land with basic infrastructure could generate more profit than land without basic infrastructures.

SA	A	U	D	SD
1	2	3	4	5

d. Acquiring raw land and building the necessary basic infrastructure for it could generate more profit than acquiring prepared/ matured land with basic infrastructure.

SA	A	U	D	SD
----	---	---	---	----

e. Land close to CBD (Jakarta) is too expensive for this project.

SA	A	U	D	SD
1	2	3	4	5

23. Have you acquired land as big as your proposed project?

1. Yes                      2. No

24. If no, how big was your land when you started this project? ..... ha  
which corresponds to ..... per cent of your proposed project.

## 24. (SHOWCARD NO VII)

How big was the land when you bought it ?

1. <0.25 ha
2. 0.26-0.50 ha
3. 0.51 – 1 ha
4. 1 – 5 ha
5. .5 ha

26. Did you buy directly from landowners?

1. Yes                      2. No

- 
27. (SHOWCARD NO VIII)  
Who was the landowners?
1. Private individuals
  2. Government
  3. Individuals and Government
  4. company
28. Could you tell us how much was the price of the land when you bought it?  
Rp. .... per sq meter in 19.....

<b>SECTION C: LAND DEVELOPMENT</b>
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29. In your opinion, which one is more profitable. Developing large residential area or small residential area? Please explain.
30. Please tell us the stages of your land development process. Please explain.
31. Please tell us where you acquire the fund for your investment.

### Appendix 3: Questionnaire for House Buyers

**Department of Regional  
and City Planning  
INSTITUT TEKNOLOGI BANDUNG**

**Household's Data**No :   

Interviewee : .....

Code :  

Company's Name : .....

Project's Name : .....

(I) Date : .....

(II) Time : .....

(III) Place : .....

(iii) House Type : House: .....m2

Plot : .....m2.

**(To be read by interviewer)***Dear Sir/Madam:**Thank you for allowing us to come into your house.*

*I (name) from the Department of Regional and City Planning ITB is conducting survey for a research on Developers' Behaviours on Residential land Development in Jabotabek. The aims of this survey are to seek the reasons why the developers locate the project(s) in certain location, and to seek the developers' effort in providing public facilities such as job places, shops, security, etc.*

*We would like to ask you some questions using this questionnaire. There are two types of questions in this questionnaire. Firstly, are questions, which would require you to choose one or more answers from the available answers in cards that I will show you. Secondly, are questions which require you to answer freely, this could be an opinion or a suggestion*

*Your personal identity would not be asked in this questionnaire. This survey is confidential, therefore, data gathered from this survey will be treated as confidential information. The result will be used only for academic research. We hope that you would be able to help us by giving a few minute of your time to be interviewed.*

<b>SECTION A : HOUSE</b>
--------------------------

## 1. (SHOWCARD NO 1)

Please look at this card and tell us the important factor(s) to be taken into consideration when you decided to buy this house.

Factor	The most (1)	Second most (2)	Third most (3)
Availability of Golf Field			
Proximity to Good School			
Availability of Informal Traders			
Proximity to traditional market			
Availability of Good Park			
Affordable House Price			
Proximity to Work Place			
Proximity to Shopping Centre			
Good Accessibility to City Centre			
Good Housing Security			
Proximity to families/friends			
Other			
na			
Total			

## 2. From the same card, please tell us the three least important factors?

1. ....
2. ....
3. ....

**SECTION B. DAILY ACTIVITIES**

3. Where is the location of your work place? (Streets name and areas):  
.....
4. (SHOW CARD NO II)  
How do you usually go to work place? (more than one answer)
- a. private car
  - b. public bus
  - c. taxi
  - d. motor bike
  - e. walk
  - f. other (explain) .....
5. How long does it take to go to your work place? ..... Minutes
6. (SHOWCARD NO II)  
How do you usually go to do your daily shopping: (can be more than one answer)
- a. private car
  - b. public bus
  - c. taxi
  - d. motor bike
  - e. walk
  - f. other (explain) .....
7. How long does it take to go to do your daily shopping place?  
..... Minutes
8. (SHOWCARD NO II)  
How do you usually go to the nearest shopping centre? (can be more than one answer)
- a. private car
  - b. public bus
  - c. taxi
  - d. motor bike
  - e. walk
  - f. other (explain) .....
9. How long does it take to go to your nearest shopping centre?  
..... Minutes
10. (SHOWCARD NO II)  
How do usually your children go to school? (can be more than one answer)
- a. private car
  - b. public bus
  - c. taxi
  - d. motor bike
  - e. walk
  - f. other (explain) .....

11. How long does it take to go to your children's school?

Nursery	.....	Minutes
Primary	.....	Minutes
Junior HS	.....	Minutes
Senior HS	.....	Minutes
University	.....	Minutes

12. (SHOWCARD NO III)

Could you please tell us the distant of these places from your house?

Location	<1km	1-2 km	2-3 km	3-4 km	>4km (explain)
a. Bus stop	1	2	3	4	
b. Medical Doctor	1	2	3	4	
c. General Hospital	1	2	3	4	
d. Traditional Market	1	2	3	4	

13. (SHOWCARD NO IV)

Do you employ one or some of these?

	yes	no
a. Domestic helper	1	2
b. Gardener	1	2
c. Driver	1	2

#### SECTION C: HOUSEHOLD DATA

14. What is your occupation?

- a. Entrepreneur
- b. Work in private company
- c. Not working
- d. Pensioner
- e. Civil servant (explain)
- .....

15. What is your education level?

- a. Post-Graduate
- b. Graduate
- c. Under-graduate
- d. High school
- e. Self educated
- f. ....

- 
16. (SHOWCARD NO VII)  
Where do you place yourself in this list of social group?
- a. High income group
  - b. Middle-high income group
  - c. Middle-low income group
  - d. Low income group
17. How much is your annual earning? ..... Rupiah
18. Do you possess any of these items?
- | Items                 | yes | no | number   |
|-----------------------|-----|----|----------|
| a. Car                |     |    |          |
| a. BMW Class          | 1   | 2  | .....    |
| b. Honda Accord Class | 1   | 2  | .....    |
| c. Suzuki carry Class | 1   | 2  | .....    |
| b. Motor bike         | 1   | 2  | .....    |
| c. Television         | 1   | 2  | .....    |
| d. Telephone          | 1   | 2  | .....    |
| e. Hand phone         | 1   | 2  | .....    |
| f. House              | 1   | 2  | .....    |
| g. Land               | 1   | 2  | ..... ha |
19. How big is your family? ..... persons
20. How old are you : .....years old
21. How long have you been living in this house? .....months
22. Do you have any other house?                      1. Yes                      2. No
23. Is this your first house?                              1. Yes                      2. No
24. If no, then this is your                      1. First,    2. Second    3..... House
25. Where did you live before settling here ? .....
26. What is your opinion about this house?
- .....
- .....
- .....
27. Do you have any complain about this house or this area? (Does this house/area match with your expectation? Has the developer delivered their promises?)



## Appendix 4: Observation list

**Department of Regional  
and City Planning  
INSTITUT TEKNOLOGI BANDUNG**

**Observation list**No :   

Observer : .....

Code :  

Company's Name : .....

Project's Name : .....

Proposed Area : ..... Hectares

Developed Area : ..... Hectares

(I) Date : .....

(II) Time : .....

(III) Place : .....

1. Project size
2. House type and quality:
3. Quality of Basic Infrastructure
  - a. Roads/streets/alleys
  - b. Sewerage
  - c. Drainage
  - d. Solid waste disposal
  - e. Clean water
  - f. Electricity
4. Availability and quality of facilities
  - a. Park/Garden
  - b. School: Nursery  
Primary School  
Junior School  
Senior School  
Other
  - c. Religious Facilities  
Mosques  
Church  
Other
  - d. Offices
  - e. Shops
  - f. Polyclinics
  - g. Sports  
Golf course  
Driving range  
Tennis court  
Others
  - h. Bus stops
  - i. Post office
  - j. Public telephone

- 
5. Site Characteristics
    - Topography: (Plain, hilly,)
    - Soil: (fertile, dry, swampy)
    - Actual land use; (Village, Padi Filed, other)
  6. Time distance from CBD Jakarta (The National Museum)
  7. The physical conditions of the public facilities
  8. Overall project quality score (between 5 to 10)

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