

## **HOW TO SET THE SHOPHOUSES RENTAL RATE WITH INCOME APPROACH?**

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### **Abstract**

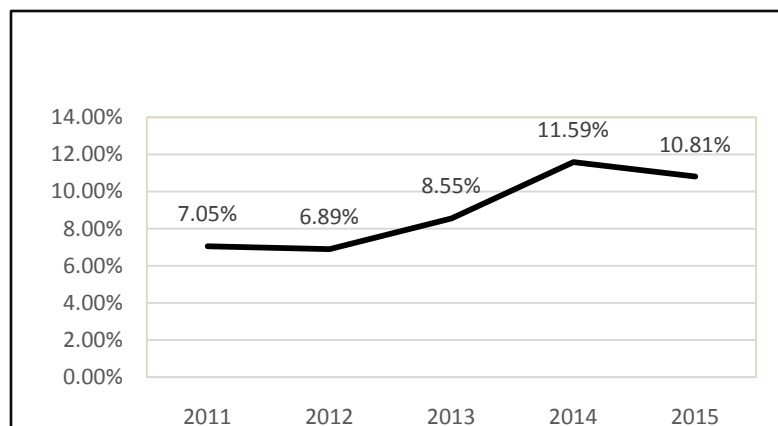
*This study aims to set the rental rate of Sawerigading Shophouses, hence this can help the City Government of Palopo to resolve conflicts with the residents of Sawerigading Shophouses and can increase the local revenue of Palopo City. The rental rate of Sawerigading Shophouses was obtained using the Income Approach. in accordance with the previous opinion, that the shophouse incomes is only sourced from the lease. The result of this study revealed that from the calculation using income approach, the rental market rates of Sawerigading shop are range between Rp.20.270.257,00 up to Rp.38.175.651,00 /year. depending on the size and position of the shophouse, with the potential of annual income of Rp.1.580.066.526,00/year.*

*Keywords: Property Appraisal, Property Rental, Government Assets, income approach, Rental Valuation, Public Policy*

## INTRODUCTION

Local Revenue is one of the benchmarks of the autonomy rate because it comes from the economic activities of the region itself. The regional fiscal autonomy is indicated by the size of the local revenue compared to the total regional revenue. The fiscal autonomy of regional benchmarks seen from the ratio of local revenue to total Revenue as follows: Ratio 0.00-10.00% means very less autonomy rate; 10.01-20.00% means less autonomy rate; 20.01-30.00% means medium autonomy rate; 30.01-40.00% means good enough autonomy rate; 40.01-50.00% means Good autonomy rate and above 50.00% means very good autonomy rate (Sianturi, et al, 2013). In 2015, the City Government of Palopo is one of the regional governments that have a level of autonomy rate which is at the level of less (10.01-20.00%). For more details, the contribution of local revenue to the revenue of Palopo City Government as shown in graph 1.

Graph 1. Contributions of Palopo City Local Revenue



To increase the local revenue of Palopo City, the local government plans to utilize the Sawerigading shophouses which is the building of the submission to the third party. But to take advantage of these assets, the city of Palopo government faces obstacles from current occupants. As submitted by representatives of complex housing Sawerigading shophouses on 29 April 2016 through the website *laporpresiden.id* who complained about the rental value of Sawerigading shophouses.

There is lack of understanding between the City Government of Palopo and the occupants of Sawerigading shophouses about the rental value of the shop is interesting to study. At the time, the regional government set the rental rates on regional assets by only comparing the rental value of similar properties. The assessment has not followed the correct

assessment system yet and is only a subjective observation without being included in the assessment report. Therefore, this research is very important to assist the City Government of Palopo in determining the rental value of Sawerigading shophouses so that it can resolve the conflict with the occupants of Sawerigading shophouses.

There are several studies that assess the value of rental properties, especially government buildings. What distinguishes this research from previous studies is this study explains in detail how to calculate shophouse rental rate with income approach.

## LITERATURE REVIEW

Research related to property valuation has been done for a long time. The need for preliminary information on a property value before making a sale and purchase transactions makes science progress more rapidly. Even in Indonesia itself, Appraisers became one of the professions that began to grow and demand by many people.

As the research conducted by Rahadi, et al (2014) in DKI Jakarta, they examined the factors that affected the price of the house such as building quality, building concept / architecture and location of the research results of these factors significantly affect the price of the house even some factors additions that also affect housing prices such as demographics and the environment. Naderi, et al (2012), in his research found that buildings, access, environment, finance affected buyers's attitude in assessing house prices. In addition, environmental and cultural factors also affect the value of a property (Guo, et al, 2013). The greater or wider a property the permeate property value will be higher given the factors affecting the value of the other property are considered equal (Li, et al, 2014).

To assess the properties of many of the approaches that can be used such as the research by McCord et al. (2014) that compared the assessment model between Simultaneous Autoregressive (SAR) models, CAR models, Geographically Weighted Regression (GWR) and The eigenvector spatial filtering approach to determine value rent with factors that influence the property structure / quality factor, location factor and environmental factors. From the research results, techniques or approach geographically weighted regression (GWR) provides better accuracy values than the other three approaches. Rental value can also be obtained by capitalization of rent value in the region such as calculation of rent index value in Oslo City by using rental value data and building type that influence rent index of property in the city (Oust, 2013).

Offices and shops are the most high-income rental properties, as reported by Oluwunmi et al. (2012), based on their survey results in Akure Nigeria showing that office and shopping buildings provided the highest rental rates compared to other properties.

Sriboonjit and Rattanaprichavej (2013) conducted research in the Bangkok City of Thailand. From result of research of physical factor, facility factor, external factor significantly influence rent value of apartment while management level management factor do not directly influence to rent value of apartment. Amenyah and Fletcher (2013) concluded that apartment rental rates in Ghana especially in Accra City are affected by location, number of rooms, health facilities and sanitation. Bello (2012) also conducted research on the factors that affect the rental value of shopping centers, in this study found that age, proximity to the city center, location, store vacancy rate, population, gross income from stores that affect store rental value. In addition, the interest rate also affects the house price and its rent value, which is a good time to buy a home when the interest rate is low and the ease of credit (Sommer, et al, 2013).

As for the study of rental shophouses valuation in Indonesia conducted Utama(2016) who conducted a study using the market approach and cost approach with the results of research that the assessment of rental rates based on market approach has a value of rental rates greater than the method of valuation based on Minister of Finance Regulation Number:33/PMK.06/2012 on the procedure of Implementation of government assets leases. In addition there is also Septiani (2016) who conducted the study using the market and expense approach and concluded that the estimated rental value of the shop is Rp.224.343.600,00/year.

In addition, there are also studies that factors affecting the rental rates of shophouses such as age of the building, proximity to the city center, location, store vacancy rate, population, gross income from stores or GIM significantly affect store rental value (Bello, 2012) . The parking area, the age of the building, the number of floors, the distance from the city center and the location have a significant effect on the capitalization level of shophouse property (Lestari, 2014). The building area of rented house and wide road front of the property proved to have a positive and significant effect on the rental value of the store house property, while the distance of the shop house property to the center of Yogyakarta center business district (CBD) has a negative and significant effect on the rental value of the shop house property (Taufan, 2016).

## RESEARCH METHOD

This research type is descriptive with quantitative approach. To determine the rental value of Sawerigading Shophouses using Income Approach. Sampling is done by purposive sampling technique. In this study Sample used in the form of some Sawerigading Shophouses. In addition, interviews with experienced appraiser are also conducted to assist in making adjustments a depreciation of sawerigading shop building.

The variables that affect the rental value of the property, will be used in the property valuation approach. Some commonly used appraisal approaches are market approaches, cost

approaches and income approaches. In this study using income approach, because it is very rarely used in determining the value of rental shop. in general people use the market approach, because it is easier to understand. therefore, the income approach can be the second opinion in considering hiring or not renting a property. To determine the rental value of a property using the income approach then generally use the Gross Rent Multiplier formula, by the formula (Hidayati and Harjanto, 2014):

$$\boxed{\text{GRM} = \frac{\text{SP}}{\text{GR}}} \quad \text{or} \quad \boxed{\text{GR} = \text{SP} / \text{GRM}}$$

Information:

SP : Property Sale Price / Property Value

GRM : Gross Rent Multiplier

GR : Gross Rental Income

To get GRM value, it can be done by using market approach to property selling value divided by rent value according to transaction or offer from some comparison data. While to get property selling value, obtained from cost approach with formula:

$$\boxed{\text{Property Values} = \text{Value of Land} + (\text{Reproduction Value} - \text{Depreciation})}$$

The procedure steps in determining the value of the property using the cost approach are as follows (Hidayati and Harjanto, 2014):

1. Estimate the value of the land as empty soil and ready to build in accordance with the highest and best usage.
2. Estimates the cost of reproduction or new replacement costs of such developments on the date of the assessment.
3. Estimate other necessary expense to make the building like in new condition.
4. Estimate the profitability of the owner / developer based on market analysis.
5. Summarize the estimated construction or replacement costs, to generate the total cost of building or replacing the building structure.
6. Estimate the amount of depreciation.
7. Reduce depreciation estimation of total development or replacement costs to obtain reproducible expenses or depreciated replacement expense.

8. Increase the expense of reproduction that has been depreciated with the value of the land.
9. Reconcile an indication of the value of the building to reflect the property interest being assessed.

## RESULT AND DISCUSSION

Sawerigading Shophouses was completed in 1996 on an area of 4.940 m<sup>2</sup>. Sawerigading Shophouses development is done by PT. Nelya Inti Perkasa based on the letter of cooperation agreement Number: 181/26/III/1996. Total shophouses are built as many as 72 units. Of the 72 units of shop, can classify into 12 types, based on the size and position of the shop. The classification as follows:

Table 1. Classification of Sawerigading Shophouses

Description	Classification of Sawerigading Shophouses												TOTAL
Type	A	B	C	D	E	F	G	H	I	J	K	L	
Wide (m <sup>2</sup> )	60	61	62	63	64	65	73	81	103	104	107	113	
Position	central						Corner						
Number of Shophouses	30	1	1	30	1	1	2	2	1	1	1	1	72

In appraising the rental rate of Sawerigading shophouses with the Income Approach, firstly evaluate the value of the land, building value and depreciation, and the GRM (Gross Rent Multiplier) value. The result of the calculation will get the total rental value of Sawerigading Shophouses. Meanwhile, to get the value of every unit total rental value divided by total building area and multiplied by building area per unit. The stage shophouses rental valuation with Income Approach is as follows:

### 1. Land Rating

The value of land is set using a market approach where the land is assumed to be empty land. From the result of information gathering in Palopo City, there are 3 (Three) empty land plots that have characteristic that most closely resembles the object of assessment. While the comparative elements used are Location, Accessibility, Land Area and Physical Soil. From calculation with market approach obtained by the value of per meter land in Sawerigading Shophouses of Rp. 2.500.529,00/m<sup>2</sup>, so the total value of land with an area of 4.940 m<sup>2</sup> is Rp.12.352.611.856,00.

## 2. Building Assessment

To set the replacement cost of new building, it is done by multiplying the building area with the cost of per meter square of the new building. Based on the Decree of the Mayor of Palopo Number 354 / XI / 2016 on the Pricing of State Building Unit, State House and Fence in Palopo City that the unit of the price of the construction of a state house of Rp. 4.090.000,00 /m<sup>2</sup>. While the total area of Sawerigading Shophouses building is 4.677 m<sup>2</sup>. So the cost of replacing two-storey Sawerigading Shophouses building is Rp. 38.257.860. 000,00.

## 3. Building Depreciation Value

Depreciation of Sawerigading shophouses building can be caused by physical damage, decline in function and economic decline. The calculation of each depreciation as follows:

### a. Physical Depreciation

To calculate the amount of physical depreciation is done by Straight Line Method, where the economic life of Sawerigading shophouses building is 50 years old while the effective life of the building is 21 Years. So the physical depreciation of Sawerigading shophouses building is 42%.

### b. Functional Decline.

The causes of functional decline are poor planning, imbalances related to size, model, shape, age and others. To know the decline of function on Sawerigading shophouses will be described in the following table:

Table 2. Declining Sawerigading Shophouses Function

NO	Declining Function	The observation result	Functional Decline Value
1	Bad planning	Sawerigading Shophouses is still consistent for the place to sell and the buildings are still worthy to be occupied	0 %
2	The imbalance is related to the size	The width of the Sawerigading Shophouses is between 4 m up to 7 m, with the length of 13 m s / d 15 m, based on the observation of the shop area, it is still consistent to trade until now.	0 %
3	The other factors that may cause Sawerigading shouphouses are not suitable to be occupied to live and sell	The shape of Sawerigadingpun shophouses is still Consistent and not outdated while factors related to the function that can reduce the value of shop building, not found during the observation.	0 %
TOTAL			0%

c. Economic Decline.

Economic downturn is caused by external influences such as poor neighborhoods, changes in government regulations, zoning regulations. Based on the results of observations in the location of the designation or zoning Sawerigading shophouses do not change where the location is intended for business and trade so the value of economic setback 0%.

From the description above it is known the physical depreciation of 42%, the function of 0% shrinkage and economic depreciation of 0%, so the total depreciation of Sawerigading shophouses is 42%.

4. GRM Calculation (*Gross Rent Multiplier*)

In the calculation of GRM using comparison data of some shophouses spread in the area of Palopo City. To get the GRM value, the shop selling value is divided by the shop rental value, after which the average value is searched. From the calculation result, the value of GRM used in calculating the rental value of Sawerigading shophouses is 21.86.

**Calculation of Rent Value of Sawerigading Shophouses with Income Approach**

To determine the total rental value of Sawerigading shophouses, it can be set by using income approach using the following formula:

$$\begin{aligned} \text{Total Rent Value} &= (\text{Land Value} + (\text{Replacement Value} - \text{Depreciation})) / \text{GRM} \\ &= (\text{Rp } 12,352,611,856, - + (\text{Rp } 38,257,860,000,000 \times \\ &\quad (100\% - 42\%))) / 21.86 \\ &= \text{Rp. } 1,580,066,526/\text{year} \end{aligned}$$

Meanwhile, to get the rental rate per meter shophouseas:

$$\begin{aligned} \text{Rent value of permeter} &= \text{Total Rent Value} / \text{Total Area of Building Basis} \\ &= \text{Rp. } 1.580.066.526, - / 4.677 \text{ m}^2 \\ &= \text{Rp. } 337.837.62,00 / \text{m}^2 / \text{Year} \end{aligned}$$

To get the value of rent per unit, the value of the permeter rent multiplied the building base of each shophouse. From the calculation, the rental value ranges from Rp. 20,270,257,00 to Rp.38.175.651,00 / year, depending on the size of the shophouse.

From the above discussion, the total rental of shophouse with income approach amounted to Rp.1.580.066.526,00/year with rental value per unit between Rp.20.270.257,00 to Rp.38.175.651,00 /year. From these results it can be concluded that the lowest rental rate has a considerable difference with the highest rental rate of Rp.17.905.394,00. this is because the



building area of the smallest sawerigading shophouse differs far from the biggest shop building is 53 m, almost the same with the smallest shop which is 60 m. in the income approach, the building area is very influential to the rental value of the shop. Whereas, in the assessment of a property location becomes a major factor in determining the value of the property. Such as research conducted by Bello (2012) conducted research on the factors that affect the rental value of shopping centers, in this study found that age, proximity to the city center, location, store vacancy rate, population, gross income from stores that affect store rental value. With income approach, only building area and influential GIM, other factors are considered unaffected to the shophouses rental rate. This is the weakness of the income approach.

## CONCLUSIONS AND SUGGESTIONS

Based on the results of the discussion above it can be concluded that Sawerigading shophouses has the potential of local revenue amounting to Rp.1.580.066.526,00/year with rental value around Rp.20.270.257,00 up to Rp.38.175.651,00 /year depending on the size of the shophouses.

Based on the research, to get agreement between City Government of Palopo and residents of Sawerigading shophouse, the value offered for Sawerigading shop rental is at range of Rp.20.270.257,00 up to Rp.38.175.651,00 /year depending on the size of the shophouses. But to get a better value should the city government of palopo use two approaches. This income approach is advisable not to be used alone in rental shop valuations. but the results can be used as comparison data in determining shophouses rental decisions.

For further research, in determining of building depreciation should not use a straight line method because each building has different depreciation depending on its maintenance. So to know the depreciation should be done by inspection of the building to obtain the true value of building depreciation.

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