CHAPTER I

PRELIMINARY

A. Background

Property market in Indonesia has been tidal in one last decade. It is influenced by global crisis from early 2008 till 2009 then recover in 2010 continue to 2011 and peaked in the period 2012 to 2013 in which the Indonesian property market, booming. But this condition does not l ast long. Analyst property, Ali Tranghada said that property sales during 2013 to 2014 were decline by up to 70 percent. Eddy Hussy as Chairman DPP Real Estate Indonesia (REI) or known Indonesian Real Estate said that level of property low because the purchasing power was slow down.

The low purchasing power cause developers of property in Indonesia stop their production. Although land available, developer afraid to build because nobody wants to buy. It has been running for two years. Senior of Associated Director Colliers International, Ferry Salanto said the developer sometimes cannot meet the right time with buyers. Some developers began to build, but completed when the property sector was failing so it drive to oversupply. There are now some developers have become pragmatic because the current property market condition (http://properti.kompas.com).

Head of Research Universal Broker Indonesia, Satrio Utomo predict the property still not going to improve in 2017. In line with that, Senior of Associated Director Colliers International Ferry Salanto stated based on their research,

investment property for office space and apartments not reliable yet for 2017. "Although there are still demands, but existing property stocks are still plentiful. The need for office space only 250 thousand to 300 thousand square meters a year. In fact, for office space has been increased to 731 thousand square meters this year. The Price still defended high while the ability of the market has not fully recovered" said Ferry when presenting about Jakarta Property Market in Jakarta, Thursday, 5th January 2017. It also gets a respond from minister of finance of Indonesia. "In the United State, housing market could be the motor of economic growth while in Indonesia, housing industry is still sleepy" said minister of finance, Sri Mulyani in event "Prospek Ekonomi Indonesia 2017" conducted by Berita Satu Media Holding, at Jakarta, Monday, 19th December 2016 (http://marketplus.co.id ; http://www.beritasatu.com/).

The consultants predict level of selling property like residential or renting for office space would decrease until 2019. Under conditions of high office supply but demand weakened, then occupancy level will decrease (http://www.bogor-today.com). Colliers International Indonesia assess occupancy rate of office space rental in Business Location tend to decline until 2019 (http://www.cnnindonesia.com).

The predictions contradict with infrastructure development in Indonesia. Property and real estate predicted to be weakening when the infrastructure of Indonesia developed aggressively. Moreover, President of Indonesia, Joko Widodo claims that the government did the largest infrastructure development program along Indonesian's history. In the past two years, the government has

accelerated the construction of 1646.6 miles of roads, 621.3 miles toll road , bridges along 16 ,246 meters on 160 bridge, development of 35 Mega Watt power plant, 163 harbor, 2024.42 miles of railways, 15 airports, 49 dams and irrigation systems to 1 million hectares of land (http://nasional.kompas.com ; https://finance.detik.com) .

Through the development, access to various locations becomes easier. It should be able to influence the development around construction of residential, apartment building and office space for commercial industry. It supposed to develop in several locations both on a large scale or small scale. The integration of public transport with the property is believed able to trigger region development booster. The availability of mass transportation near residential areas makes the property prices in the area will continue to rise. It should be expected to bring advantageous for property buyers who plan to rent or sell property. But, what happening in Indonesia is distinct with what should be to happen.

Offices space tends to be concentrated in an area that has an image as a business area and allows easy access for clients and business colleagues. The development of toll roads is not directly influence office sector, but able to support and to encourage supply for expanded business. However infrastructures ease the business owners to run their business. Thus if the activity and the access are developed, could affect hotel sector to connect and to encourage business activity in those area. This is clash with current business situation.

Another contradiction is what happens to Apartments in Indonesia. Apartments development in the last 5 (five) years is very fast. It was triggerred from the easier of accessibility like Mass Rapid Transit (MRT), Light Rail Train (LRT) and commuter line. The highway is expected to drive the growth of apartments sector up to 30-40 % per year especially in areas that already dense population (http://www.cbcindonesia.com).

All of infrastructure development duly be able to give positive impact to property and real estate because with increasing infrastructure, economic growth will be increase also. By increasing economic growth, purchasing power will be increase too. In addition, easiness of access even for business or activities should be one of the attractiveness to purchase property and real estate. The differentiation between expected ideal condition and real condition towards property and real estate sector must be considered and questionable. This differentiation caused of many things including the way the developers think and situation that happen in Indonesia.

Developers always think, the increasing population of Indonesia each year, the need of property will increase also. However, desired to buy property are not only influenced by the needs alone. The principle of buyers to acquire appropriate price to those desired property is also an important factor. Mainly the people demands are office space and apartments as known by the most popular property that people needs. The condition of declining profits of oil company and mining company, makes a number of expatriate is also diminish. It is influence apartments demand also because mostly users are expatriates . In addition,

external factor such as the rising of fuel price and electricity price also hampers gaining an agreement between developer and buyer. Indonesia has several times raised fuel prices in the last 20 years. Raising fuel price closely linked to inflation because fuel is necessary to all sector including small and medium sized enterprises (SMEs).

Increasing fuel prices and electricity prices were considered bring additional burden to the purchasing power of people in 2015 (kompas.com). Indonesian Economic growth of 2015 was 4.79%, the lowest percentage in last six years (http://surabaya.tribunnews.com). In October 2016, the property still slow down. "Most trigger factor because the global economy condition and Gross Domestic Product (GDP) Indonesia " said Head of Research from property research institute Jones Lang LaSalle (JLL), James Taylor (https://finance.detik.com).

Indonesian Property Magazine for November 2016 edition, in rubric monitor discussed about the prospect for Indonesian property market along with a number of experts. One of them is Director Research Colliers International Indonesia, Ferry Salanto said that the condition of Indonesian property entered in a time of buyers market. It means the buyer have a higher bargaining position. This condition make the buyer able to negotiate the price as low as possible to gain their desire agreement. It is showed by the phenomenon over supply while the level of demand continues to weaken (http://mpi-update.com/).

Developer and buyer cannot meet an agreement in the right time and in the right price. In one hand, developer increase property price due to rising fuel price and electricity price. In the other hand, the ability of society to fulfill their needs decline because they should pay more for price increases. Moreover, to fulfill need that require a large amount of money, society tend to wait and see which developer also do it too whereas when developer wait and see, they also need to pay electricity cost and care cost. This is one of the reasons why developer did not want to decrease the property price. The solution would be the regulation of government. If regulation tenders are executed, then velocity of money will trigger the growth of economy. One of government regulation is legalize property ownership for foreigner.

Government regulation or *Peraturan Pemerintah (PP)* number 103 of 2015 is one of the ways from government to make foreigner be longer contribute to the economy. President Indonesia, Joko Widodo on 22nd Desember 2015 has signed Government regulation or *Peraturan Pemerintah (PP)* number 103 of 2015 on Ownership of Dwelling of Residency House by Foreign Persons Domiciled in Indonesia (http://setkab.go.id). Foreigner is a holder of a residence permit in Indonesia in accordance with the provisions of laws and regulations (http://www.indonesia.cz). Vice Chairman of REI, Ignesjz Kemalawarta, describes the reason for the government to tap foreign property ownership are to support the property in a tourist area and to obtain tax revenues. It is a part of competition in the era of globalization such as the Asean Economic Community

(AEC) market in Indonesia. Moreover, President Joko Widodo open foreign investors to contribute and invest in Indonesia (http://www.hukumonline.com).

Indonesia's Minister of Agrarian Affairs and Spatial Planning/Head of the National Land Agency, Ferry Mursyidan Baldan asserted government regulation or *Peraturan Pemerintah (PP)* number 103 of 2015 represented a positive move by government to encourage the national investment climate. One further stipulation is that foreign citizens will only be allowed to purchase new residential property or apartment units directly from their developers or first owners, and they are therefore prohibited from purchasing property which has been transferred to another party. "[Any purchased property] must be brand new, and this stipulation should stimulate the construction sector and ultimately improve growth in the [country's] property market," asserted Minister Baldan (http://properti.kompas.com).

Table 1 Minimal Price that Able to Buy for Foreigner

N0	Location	Type of Property	
		House (≥)	Apartment (≥)
1	Jakarta	10 billion	5 billion
2	Banten	5 billion	1 billion
3	West Java	5 billion	1 billion
4	Central Java	3 billion	1 billion
5	Jogjakarta	3 billion	1 billion
6	East Java	3 billion	1.5 billion
7	Bali	3 billion	2 billion
8	West Nusa Tenggara	2 billion	1 billion
9	North Sumatera	2 billion	1 billion
10	East Kalimantan	2 billion	1 billion
11	South Sulawesi	2 billion	1 billion
12	Other location	1 billion	750 million

Source: http://www.hukumonline.com

Neraca .co.id stated Indonesia will experience bubble property in next five (5) year if government open opportunities of property ownership for foreigner. Many foreigner will enter Indonesia because the minimal price of property that able to purchase only five (5) billion only. This limit is considered too low, thus market in these segment will rising uncontrollably then create a bubble. There is no guarantee the price will not increase because the standard is not local standard but regional standard which means five (5) billion is too easy. All of countries that have opened foreign ownership, their property market experienced bubble. For example Tiongkok, Malaysia, Vietnam and Singapore have been experience bubble property in sector apartment with market fell percentage 20% (http://www.neraca.co.id ; http://ekbis.sindonews.com). It warns the property and real estate sector that there is a threat of bankruptcy because of the legalization of this regulation. In addition, the condition of Indonesian property and real estate sector nowadays contradict with infrastructure development. Moreover, property and real estate when generating a lot of sales, have a great income but when lose would be a large number also. This condition make company should careful of their cash flow to avoid the company fail to fulfill their obligation. It means when company can not pay debt to creditors will hamper operational activity and reduce the productivity of the companies. This shows that sector property and real estate have high dependence on sales because if sales decrease then profit will be loss and then tend to be bankruptcy.

Bankruptcy is the condition of the company that can not fulfill their obligation to its creditors. According to Kamus Besar Bahasa Indonesia (KBBI)

definition of bankruptcy is "bankruptcy is suffer a high loss untill fallen". Property and real estate sector usually gain capital from investors in large amounts. Besides, sometimes if underfunded they will rely on creditors such as bank. So, if sales decline significantly, they did not have earning to pay debt. Therefore, it is need to predict bankruptcy indication as often as possible. Bankruptcy prediction is also able to avoid either direct cost or indirect cost if bankruptcy happens. Both of the cost will reduce the company's assets, therefore company should identify the trigger factors of bankcruptcy as soon as possible by analyzing financial statements.

The analyzing of financial statements is the calculation of ratios as one of the information source that can manage the strategy to avoid or even to reduce bankruptcy risk. Ratio is number that have correlation between one element to others element and state in simple formula. Analyzing financial statements can identify the financial condition of the company on past, current and future period. Beside of that, it is also give the information about the movement and development of financial position . In the other hands, additional function are to identify company performance and the effectivity and efficiency of company to analyze the possibilty of bankruptcy.

The best method to predict bankruptcy is Altman method. Altman find the value of Z from combining financial ratios which obtain from financial statement. The reason why researcher choose using Altman (Z- Score) because the accuracy rate for predict bankruptcy is 50% and the best accuracy prediction model comparing to S-score, Y-score and Grover according to research done by Enny Wahyu (http://eprints.dinus.ac.id).

Financial statements available in Indonesian Stock Exchange if the companies are public company known as go public. The company which listing in Indonesian Stock Exchange (IDX) should publish their financial statements and annual report. The condition of financial statements will affect selling price of stock that listing in IDX. Listing is inclusion of stock or shares to exchange that traded.

Listing in IDX means the company should give best performance to create good financial statements who can invite the investor. In a certain condition, when a company performance is poor proven by bad financial statements, Indonesian Stock Exchange (IDX) will delist the company. Ussually, the company publish their bankruptcy statement to Indonesia Stock Exchange sites. Delisting is deletion of stock from exchange thus can not be traded anymore. Not every company that delisting from Indonesian Stock Exchange caused by having financial difficulties. The other reason is voluntary delisting. Therefore people will know wheter the company delisting from Indonesian Exchange by themselves or not.

Although the number of companies that delisting from IDX is large enough but still less attention. It is because bankruptcy statement of a company less publicity so the reader is not much. This phenomenon can be proven by literature review about bankruptcy in the property and real sector is very limited. In terms of research including theses, dissertations, books, or even in journal articles very rarely take a context in property and real estate sector. Most of those researches were in industry and manufacture sector, for instance, in Brawijaya

University. Many theses discuss about bankruptcy in garment sector. Related to this reality, and also triggered by several issues and phenomenon in Indonesia that explain before, it is need to the researcher to conduct a research entitled "**The Analysis of Property and Real Estate Financial Performance Using Altman (Z-Score) to Predict Bankruptcy**"

B. Problem Formulation

According to the researcher background, then problem formulation in this research is how the financial performance able to measure company performance in property and real estate by using Altman (Z- Score) model for listing and delisting in Indonesian Stock Exchange ?

C. Research Objectives

According to problem formulation that have been described then research objectives to analyze financial performance can measure company performance in property and real estate by using Altman (Z- Score) model for listing and delisting in Indonesian Stock Exchange.

D. Research Contribution

Through this research, expected contribution as below :

1. Academic Contribution

   a. As a academic reference for student who conduct similar research in the futures.

b. This research is expected able to provide information and improve knowledge particularly related on Altman (Z-score).

2. Practical Contribution

a. As a consideration for stakeholder of the companies and related institute such as Indonesian Stock Exchange to recognize bankruptcy indication and making the right decision for companies continuity.

b. This research provide information about financial performance of the company in terms of property and real estate sector as a consideration for the investor on making decision to minimalize investment risk.

c. The creditors , in order to provide loans and to avoid delay in payment or even no payment of debt .

d. Researcher to understand the theory and implement it for real life.

E. Systematic of Discussion

To understand this research content need sytematic of discussion. It is how the researcher try to explain and describe the research. That is briefly as follows:

CHAPTER I   : PRELIMINARY

Describe research background, problem formulation, research objectives, research contibution and systematic of discussion.

CHAPTER II   : LITERATURE REVIEW

Provide the theories related to conducted research. Describe the definition of property and real estate, the definition of financial performance, ratio analysis, bankruptcy and Altman (Z-Score) model.

CHAPTER III   : RESEARCH METHODOLOGY

Describe type of research, location of research, research focus, population and sample, source of data, data collection method, and method of data analysis.

CHAPTER IV   :RESULTS

Present the result of analyzing data in this research that consist of presentation of data, analysis of data, and discussion of problem faced.

CHAPTER V   :CLOSING

Provide the conclusion after research and suggestion from researcher related to the research and able to be a consideration for subsequent research.