SUMMARY

Accurate measurement of the return of real estate investment is essential in the decision to invest in office building. So far, little research has been done on the Jakarta prime office market. This research analyzes the performance of Jakarta’s prime office rate of return. The first step is determining the annual rate of return over the period from 1988 to 1999 by incorporating net operating income and capital gain over the capital employed for each holding period. Then, regression analysis is performed to determine the variables that affect the fluctuations in the rate of return. Determinants of the rate of return, such as the rent, occupancy rate, supply, net operating income and capital gain, are included in the analysis. Furthermore, some of the macroeconomic indicators such as interest rate, inflation rate and foreign exchange are also included. The result shows that the major driving force of the rate of return in Jakarta market is capital appreciation. The significant variables in the regression model are the net income, capital value, rent, interest rate and occupancy rate. From the analysis it appears that capital appreciation is strongly affected by fluctuations in macroeconomic conditions. This investment seems to contain high risks, and does not provide any hedge against inflation both in long term and short term holding periods.

KEYWORDS:

Real Estate Cycles, Rate of Return, Capital Appreciation, Macroeconomic Conditions, Jakarta’s Prime Office Market, Risk.