Industrial Estate Sector

"Industrial land sales tapered off with most high performing industrial estates reporting that sales volume had ebbed compared with previous periods. Total land sales this quarter achieved 19.39 hectares, only 6% of the total sales 2015. In general, 62% of the total sales this quarter were concluded by logistics and automotive sector. Prices of industrial land only increased by 17% in the two main industrial estates in Serang as the result of good sales they recorded last year."

Industrial Land Supply

The industrial land transaction activity appears to be languishing simply because most industrial clients have yet to see the good timing to buy. This has also underlined supply situation for the quarter with less construction activities. Most of our industrial colleagues confirmed this and thus, such situation has characterized the general sales condition during the reviewed quarter.

Bekasi may see less industrial land expansion in the future given the increasingly-limited land bank in this region. One industrial land with the biggest vacant land among others may be the only option for industrial clients looking for sizeable land. As land became scarce in Bekasi area, prices are the highest compared to other regions. In Bekasi there is only a few industrial estates with expansion plan and therefore potential land to be developed in this region is limited. Some industrial estates are now focusing more on developing commercial area particularly those holding prime land lots within the estates. Mature industrial estates with established tenants generally benefit from the population of multinational companies as well as local and expatriate workers. There are several industrial estates that emphasise more on commercial and residential developments to maximise the use and the profit of the remaining land. Furthermore, Bekasi region will take benefit from the major undergoing infrastructure project i.e. the LRT (Light Rail Transit) to serve the city to and from Jakarta. The constructions of massive apartment projects are becoming very common nowadays in Bekasi, as well as other commercial functions like hotel, shopping centre or even office building.

Karawang holds the largest industrial land bank to be developed, particularly from the construction of Trans Hexa Karawang (THK) consortium project. The general infrastructure of this mega project is ready to serve the whole estate. GT Techpark @ Karawang seemed to be the most progressive under-construction industrial estate of the consortium so far. Meanwhile, Karawang Jabar Industrial Estate (part of Lippo Group) that is located at the main entrance of THK has Toyota Motor Manufacturing Indonesia that built the second engine plant to boost the production capacity. Still in the THK, Podomoro Industrial Park (Agung Podomoro Group) holds more than 500 hectares of land and thus far has developed around 28 hectares.

Another potential expansion in Karawang region will come from KIIC with circa 160 hectare of gross area. Currently the estate only holds limited land for sale and need to expand in anticipation of transactions in the future.

Other than the two active regions is Serang where two prominent industrial estates hold potential land to be developed. In the future, Serang anticipates more than 2,000 hectare only from the expansion of the two industrial estates.

Further south of Jakarta, Bogor region is the only region with smaller potential land to be developed from main operating industrial estates.
Land Sales Activities

In general, sales activity tapered off. The majority of high performing industrial estates reported that sales volume began to ebb compared to the previous period. Quite a few of them said that even the number of inquiries lessened with only a few concluded deals.

Total industrial land sales this quarter only achieved 19.39 hectares, slightly higher than in the previous quarter of 17.35 hectares. For the last two consecutive quarters sales has been quite slow. The total volume of transaction this quarter was way lower than that was achieved in the same period last year. The lackadaisical sales performance since the second semester last year continued during the first period of 2016.

KIIC is the only estate that is located in Karawang reporting sales during Q1 2016 albeit in moderate number of 2 hectares composed from two deals. Both transactions came from two new plastic molding industries from Taiwan and Japan.

The under construction industrial estate, Podomoro Industrial Park also reported pre-sales of 1.5 hectares land.

Another small transaction in Bekasi was reported in Delta Silicon that sold 0.8 hectare land comprising of two transactions from plastic company out of Korea and auto-part industry from Taiwan.

Albeit small, Millennium continued to record transactions from the sales of three land parcels with a total amount of 2.09 hectares.

The record breaker industrial estate for several periods, Modern Cikande only sold 5.5 hectares this period to a new auto-part industry from Malaysia. Despite small, this is so far the largest single transaction during Q1 2016.

Land Absorption in Q1 2016

Types of Activities Industries During Q1 2016
Land Price

Despite the low performance, two industrial estates in Serang pushed the asking land price further up in Q1 2016 at an average of 17%. Overall, the average land price in Serang is one of the lowest among other regions, nevertheless, the quality of the estate justifies the price as well as the continued absorption that has been the main reason to adjust prices. Industrial estates in other regions tend to maintain the current prices quotation particularly during the tough time.

There are still some industrial estates that quote price using US dollar benchmark which is not in compliance with Bank Indonesia (The Central Bank) regulation. The reasons to maintain “informal” quotation in US dollar denomination are because it is simpler for the potential overseas clients and also in order to protect them from the currency risk particularly in anticipation of volatile exchange rate. Prices will then be charged in rupiah value using the current Central Bank middle rate value. To date, as the exchange rate value has been stabilising for several months and in order to comply with the regulation, several prominent industrial estates have migrated to use rupiah as the price tag. Two industrial estates affiliated with big international group have decided to quote prices in rupiah with equivalent value to their prior price in US dollar.

Amidst the sluggish sales performance, the asking price was maintained at a current level, nevertheless, it is indicated that landlords are more accommodating on any offer coming to them which implies that in general industrial market like other property sectors are in the tenant market condition.

Industrial land quoted in US dollars will be converted to Indonesian rupiah when a transaction occurs. This has been implemented by most industrial estates with pricing in US dollars in complying with the Central Bank regulation to use rupiah in any transaction in Indonesia.
**Rental Market**

Apart from the traditional industrial estates that focus on leasing market, a few industrial estates have started to introduce building or land for lease. An industrial estate for lease in Karawang asks for industrial building rental tariff at IDR50,000 to 60,000 / sq m / month. Meanwhile one industrial estate in the same region that primarily sells land introduce tariff for leasing industrial building at USD7.25 / sq m / month. Interestingly this industrial estate also started to introduce industrial land plot for lease at IDR1,000 / sq m / month. Other under construction industrial estate in Karawang has also indicated the rental tariff for industrial building at IDR40,000 / sq m / month.

In Bekasi, one strategically located industrial estate that only focus on selling industrial land indicated that the secondary rental market for industrial building are generally quoted between IDR40,000 and IDR100,000 / sq m / month.

Still within the range, standard industrial building within one industrial estate in Serang is offered at IDR45,000 / sq m / month.

**Maintenance Costs**

This quarter saw no reason to adjust maintenance tariff. The majority of industrial estates located in the eastern part of greater Jakarta area maintains the quotation in US dollar as the reference but will convert to the prevailing exchange rate when transaction occurs. Thus far two active industrial estates in Serang have officially applied the new maintenance tariff which they have been announced in the previous quarter.

**Concluding Thought**

Due to the adverse economic climate and the competitive sales environment, the industrial market continued to experience further downward pressure as reflected in low sales performance. Large of industrial landlords reported a lethargic market condition highlighted by lessening amount of sales volume or even zero sales during the quarter. Nevertheless, such condition has been anticipated since last year given that Indonesia economy is in the preparation period to rebound. In general, most industrialists have yet to make a strategic decision in investing, however, the outlook should be positive given that they are still monitoring the right momentum to accelerate.

In more realistic way, given that selling sizeable land are becoming more challenging, one under construction industrial estate in Karawang are now focusing on selling a more massive products. A warehouse cluster with the size of between 500 and 1,000 sq m are becoming a more feasible product to sell during the current time. One good example is one industrial park in Tangerang that concentrate on selling smaller warehouse within a nicely designed estate that recorded good sales thus far.
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