Colliers Half Year

H1 2017

14 August 2017

SURABAYA | OFFICE

Accelerating success.

Office Sector

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Since 2016, office demand has continued its gloomy condition in Surabaya. Fortunately, the lack of new office supply helped occupancy remain relatively flat QoQ.

Languishing office demand also caused rents and prices to remain stagnant. However, some office buildings felt confident in increasing their rent due to limited available spaces. Conversely, a newly operating office building adjusted its base rental lower YoY to boost absorption rate.

Forecast at a glance

Supply

Based on construction progress, only one office building will meet completion and contribute less than 20,000 sq m of new additional supply in the remainder of 2017. This is lower than what we projected from the end of 2016. We also recorded that around 30% of the 460,000 sq m total future supply up to 2020 is now under construction.

Occupancy

Financial institution-related tenants are still the demand generators for office buildings in Surabaya, particularly within the city centre (primary commercial area). However, we predict that occupancy is likely to go down slightly due to the influx of new office supplies by the end of 2017.

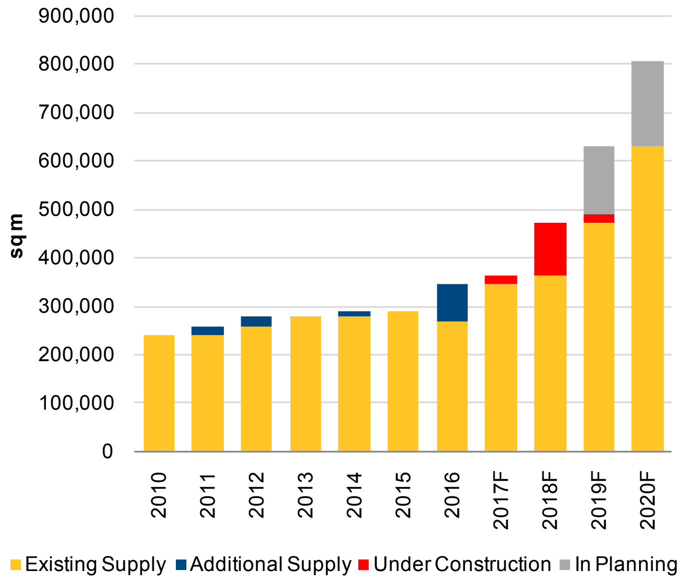
Rents

After jumping significantly in the previous year, we predict rents will grow moderately by the end of 2017. Improving demand, particularly in newly operating office buildings, will lift developers' confidence in increasing base rentals again.

OFFICE FOR LEASE

Supply

Cumulative Office Supply



Source: Colliers International Indonesia - Research

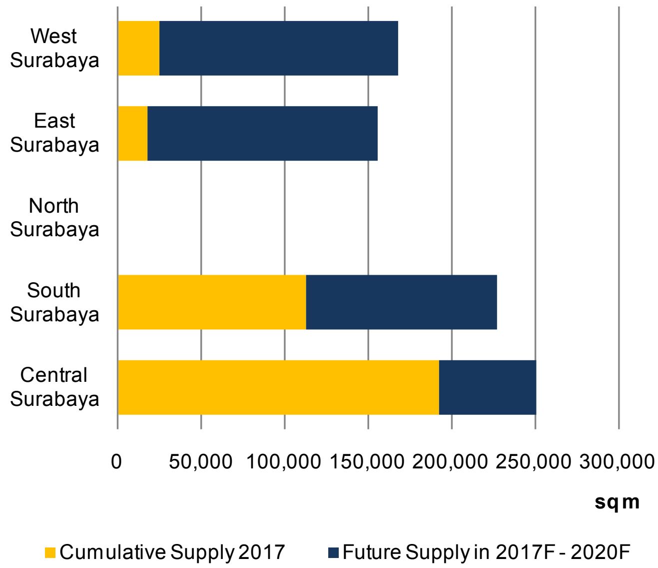
After having four office buildings in the previous year, additional office spaces are expected to be very limited in 2017. The lack of new office buildings in operation will cause the registered cumulative supply to remain at 347,333 sq m. At the end of 2016, two office buildings that offer the SOHO concept are expected to meet completion in 2017. Based on current construction progress, we expect Skyloft SOHO, which is located within Ciputra World Surabaya, to be completed in the remaining months of 2017. This office building will bring the cumulative supply to less than 5% growth YoY by the end 2017.

In addition to Skyloft SOHO, six other future office buildings are under construction as of H1 2017, five of which are expected to meet completion in 2018. These five future office buildings will bring roughly 100,000 sq m of additional office spaces in 2018.

Cumulative Supply Based on Marketing Scheme

Source: Colliers International Indonesia - Research

Existing Supply and Future Office Distribution in Several Regions in Surabaya



Source: Colliers International Indonesia - Research

The cumulative supply is expected to grow moderately in 2017 up to 2018. More additional office spaces, around 330,000 sq m, will be registered in 2019-2020. Approximately 40% of this total projected additional supply in 2019-2020 will be marketed for sale.

A total of 55% of the current office space supply is located in Central Surabaya. Pakuwon Centre and MNC Tower, which began operation in 2016, brought the total additional office space to around 190,000 sq m in Central Surabaya as of H1 2017. Except in North Surabaya, future supply will be registered as the lowest in Central Surabaya. Central Surabaya will likely contribute only around 60,000 sq m up to 2020 due to tight competition and a limited land bank particularly along the main roads, including Basuki Rahmat and Panglima Sudirman.

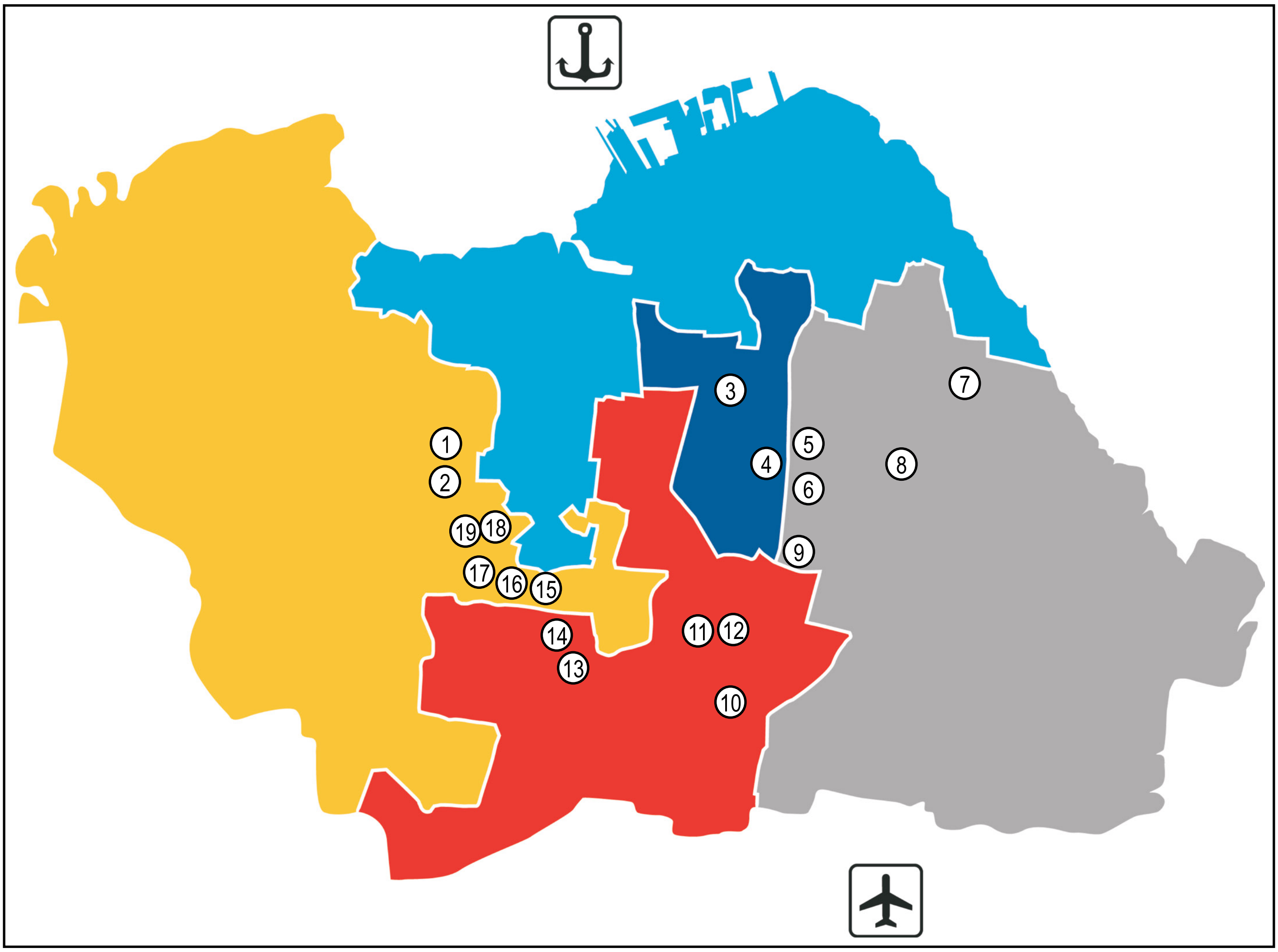
Conversely, 14 future office buildings will be completed outside Central Surabaya and bring almost 400,000 sq m of additional office spaces up to 2020. East and West Surabaya are expected to become potential areas contributing to future office buildings in Surabaya. The progressive development of residences and apartments has made developers confident in building office buildings in East and West Surabaya. In East Surabaya, locations around the MERR (Middle East Ring Road) remain the most preferred areas to develop office buildings. Meanwhile, the HR Muhammad-Darmo corridor remains a prominent area in West Surabaya. Spazio Tower, Voza Tower and Satoria Tower will become part of the listed office buildings contributing to additional office spaces in West Surabaya. In total, these two areas will contribute around 280,000 sq m of future supply up to 2020.

New Supply Pipeline

OFFICE BUILDINGS PROJECT NAME	LOCATION	DEVELOPER	SGA (SQ M)	MARKETING SCHEME
2017				
The Samator Skysuites SOHO	Kedung Baruk	PT Samator Land	22,000	For Sale
Ciputra World Surabaya Skyloft SOHO	Mayjend Sungkono	Ciputra Group	16,745	For Sale
2018				
Praxis Office	Panglima Sudirman	PT Intiland Development Tbk	12,000	For Lease & Sale
Voza Office Tower	HR Muhammad	Avia Avian	18,607	For Sale
Pakuwon Tower	Basuki Rahmat	PT Pakuwon Jati	39,740	For Lease & Sale
Puncak Dharmahusada	MERR, Mulyorejo	Surya Bumimegah Sejahtera	42,500	For Lease
Spazio Tower	Bukit Darmo Boulevard	PT Intiland Development Tbk	20,000	For Sale
2019				
Marvel City	Ngagel	PT Assa Land	12,000	For Lease
Capital Square	HR Muhammad	Greenwood	39,950	For Lease
Satoria Tower	HR Muhammad	Satoria Group	34,000	For Sale
One Galaxy	Dharmahusada	Puri Galaxy PT (Sinar Galaxy Group)	31,450	For Lease
Signature Gallery	Gubeng	AKR Land	27,300	For Lease
Ciputra World Surabaya Office Tower	Mayjend Sungkono	Ciputra Group	37,400	For Sale
Puncak CBD Jajar Tunggal	Jajar Tunggal	Surya Bumimegah Sejahtera PT	30,000	For Lease
Puncak Bukit Golf Square	Bukit Darmo Boulevard	Surya Bumimegah Sejahtera PT	30,000	For Lease
2020				
The Frontage	Ahmad Yani	Trikarya Graaha Utama	30,000	For Sale
Grand Sungkono Lagoon	Abdul Wahab Siamin	PP Property	38,250	For Lease
The SOHO 88 Avenue	Darmo Permai	Darmo Permai	22,100	For Sale
The Infinity 88 Avenue	Darmo Permai	Darmo Permai	21,250	For Lease

Source: Colliers International Indonesia - Research

Map of New Pipeline for Office Buildings in Surabaya



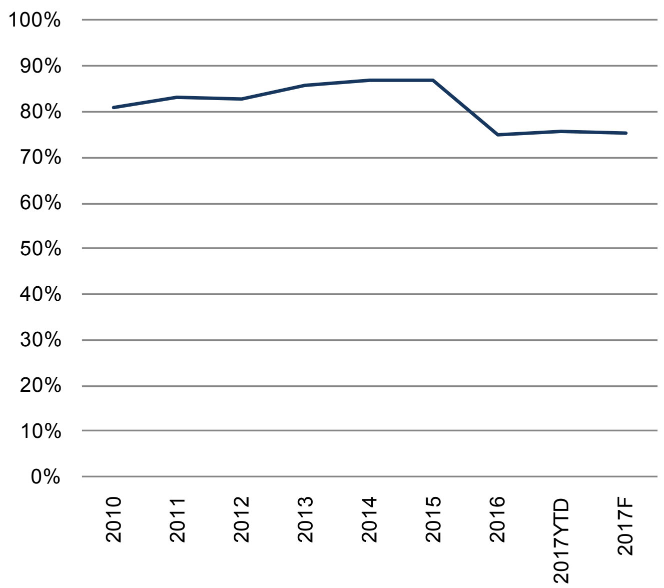
LEGEND			
1. The Samator Skysuites SOHO	6. Puncak Dharmahusada	11. One Galaxy	16. The Frontage
2. Ciputra World Surabaya Skyloft SOHO	7. Spazio Tower	12. Signature Gallery	17. Grand Sungkono Lagoon
3. Praxis Office	8. Marvel City	13. Ciputra World Surabaya Office Tower	18. The SOHO 88 Avenue
4. Voza Office Tower	9. Capital Square	14. Puncak CBD Jajar Tunggal	19. The Infinity 88 Avenue
5. Pakuwon Tower	10. Satoria Tower	15. Puncak Bukit Golf Square	

Source: Colliers International Indonesia - Research

Performance

Occupancy Rates

Occupancy Rates



Source: Colliers International Indonesia - Research

After declining significantly due to the large additional supply in 2016, occupancy increased moderately in the first half of 2017. Office buildings located in South and Central Surabaya helped bring current occupancy registrations to 75.5%.

In Central Surabaya, two office buildings had caused average occupancy to increase moderately QoQ. A newly operating office building showed a moderate increase in occupancy rates, due mostly to financial institutions, law firms and airline companies that occupied office buildings that began operations in 2016. Conversely, a telecommunications company moved out contributing to large available remaining spaces in an office building also located on Basuki Rahmat.

Current office building spaces in the city centre will impact projected occupancy in other regions. Therefore, despite showing positive growth, occupancy rates are expected to remain relatively flat up to the end of 2017 in South Surabaya. Should demand improve, two newly operating office buildings in South Surabaya expect securing tenant commitments to be slightly difficult due to the competition with other office buildings within the city centre.

An office building located at Gubeng maintained around 300 sq m of new vacant spaces, causing average occupancy to slightly decrease in East Surabaya. We project that average occupancy will continue to decrease in East Surabaya up to the end of 2017, as a result of new vacant office building spaces around the MERR.

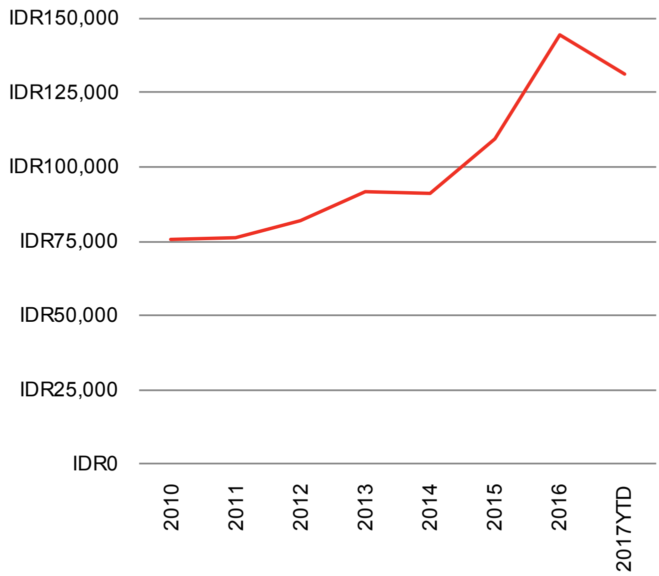
Occupancy Rates in Different Regions in Surabaya

	H1 2016		H2 2016		H1 2017
Central Surabaya	78.8%	↑	80.7%	↑	82.7%
South Surabaya	83.8%	↓	62.4%	↑	64.5%
East Surabaya	94.0%	↓	94.0%	↓	92.1%
West Surabaya	81.7%	↓	81.7%	=	81.7%
All Area	81.1%	↓	75.1%	↑	76.0%

Source: Colliers International Indonesia - Research

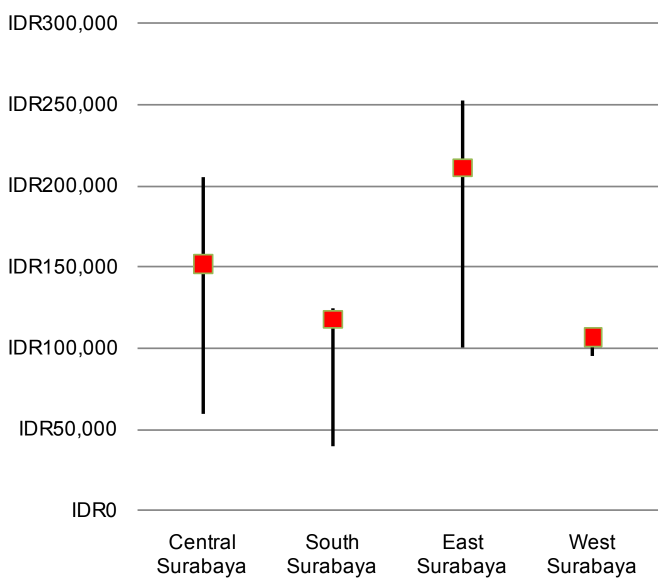
Asking Base Rent

Average Asking Base Rent



Source: Colliers International Indonesia - Research

Average Base Rents in Different Regions in Surabaya



Source: Colliers International Indonesia - Research

Average Rents in Different Regions in Surabaya					
	H1 2016		H2 2016		H1 2017
Central Surabaya	153,837	↑	182,096	↓	151,870
South Surabaya	91,723	↑	117,864	↓	117,513
East Surabaya	227,385	↑	228,655	↓	211,237
West Surabaya	106,686	=	106,686	=	106,686
All Area	140,082	↑	144,150	↓	131,381

Source: Colliers International Indonesia - Research

Though office demand was recorded as slowing down, most office buildings maintained their asking rents YoY. This was due mostly to the fact that these office buildings achieved high occupancy rates. Only three office buildings that began operations in 2016 reached occupancy rates below 60% as of H1 2017. Due to offers below market prices, AMG Tower and Skyline maintained stable asking rents. To boost absorption, Pakuwon Centre adjusted their base rental lower YoY. This situation had an impact in bringing average rents to IDR134,325/sq m/month, declining 4.1% YoY.

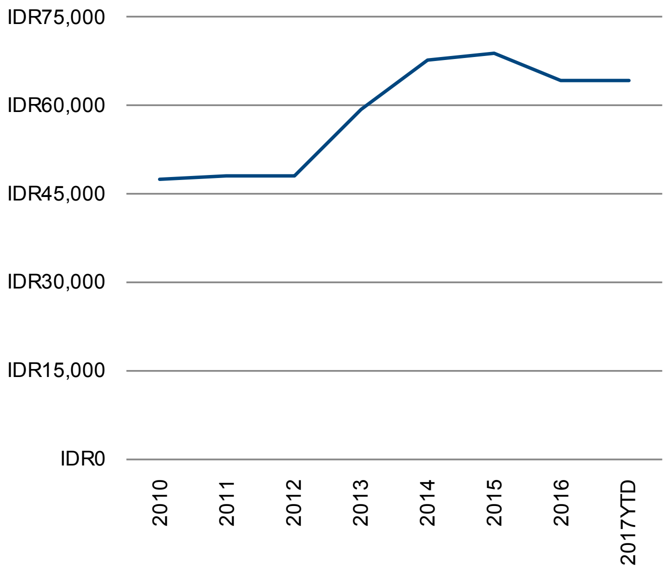
Upon calculating existing vacant spaces, average rents were recorded as relatively stable in West and South Surabaya, but lowered in Central Surabaya (13.4% QoQ) and East Surabaya. However, three office buildings in Central Surabaya increased their base rentals by 6% up to 13%. This increment was largely due to the fact that developers felt somewhat confident with the current limited available spaces in office buildings. The other office buildings in East Surabaya also increased their base rentals around 8% YoY. Nevertheless, average rents were recorded as declining 7.1% YoY in East Surabaya.

We predict that average rents will remain relatively stable by the end of 2017. Demand is expected to slow down, causing developers to maintain base rentals at stable levels by the end of 2017.

Service Charges

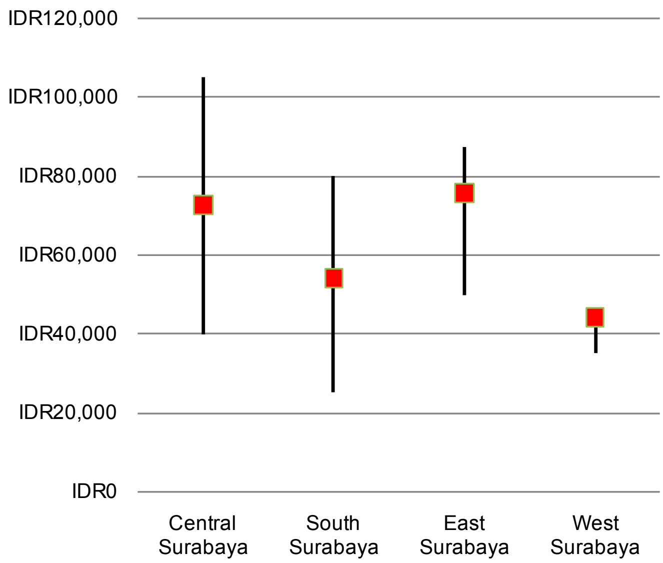
Service charges were recorded at IDR64,245/sq m/month, relatively flat QoQ. As of H1 2017, office buildings offered current service charges starting from IDR25,000 up to IDR105,000/sq m/month in Surabaya. We monitored some old office buildings as still charging maintenance costs starting from IDR25,000 up to IDR35,000/sq m/month.

Average Service Charges



Source: Colliers International Indonesia - Research

Average Service Charge in Different Region of Surabaya

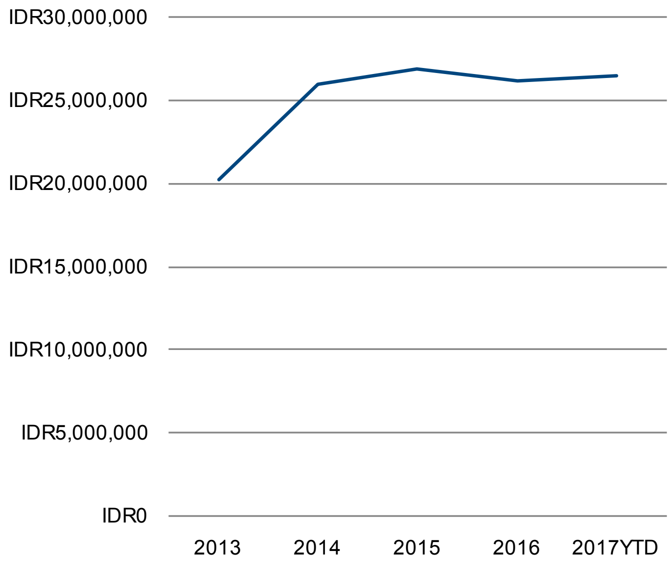


Source: Colliers International Indonesia - Research

Based on area, the lowest service charges were recorded in West Surabaya. Besides old office buildings, strata-title office buildings also contributed to the low average service charges in West Surabaya. Meanwhile, the range of service charges in Central and East Surabaya are higher than in other areas. Plaza BRI, Plaza Sinarmas Land, Gedung Bumi Mandiri and Intiland Tower recorded the highest service charges in Surabaya as of H1 2017, ranging between IDR90,000 and IDR105,000/sq m/month. Graha Esa Sampoerna recorded the highest service charge for an office building located outside the city centre.

OFFICE FOR SALE/STRATA-TITLE

Asking Prices

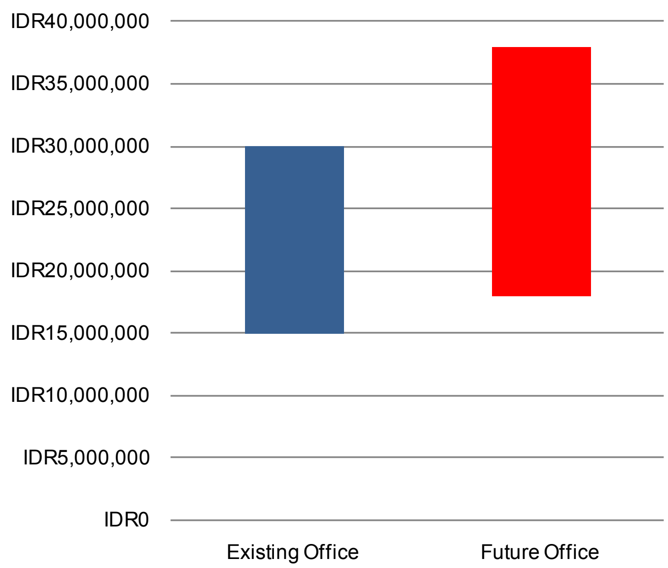


Source: Colliers International Indonesia - Research

Sluggish demand also caused stagnant asking prices in Surabaya. We recorded average asking prices that were maintained at IDR26 to IDR27 million/sq m since 2014. No less than nine future strata-title office buildings were on the market as of H1 2017, and they offer asking prices starting from IDR20 million up to IDR38 million/sq m for available spaces. This price range was relatively flat YoY. Satoria Office Tower, which was launched as of H2 2016 and still under construction today, offers the lowest asking price amongst these future office buildings.

Similar to rents, average asking prices are expected to grow modestly by the end of 2017. Strata-title office buildings owned by Pakuwon and Ciputra are expected to change the overall projected average prices in Surabaya.

Asking Prices Based on Building Completion



Source: Colliers International Indonesia - Research

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