

SURABAYA | RETAIL

Retail Sector

Ferry Salanto Senior Associate Director | Research

The cumulative supply reached one million sq m as of H1 2017. A larger additional supply lowered occupancy level by 5.5% YTD, whilst average rents and service charges continued to increase.

Forecast at a glance



Supply

The cumulative supply is expected to continue to increase by the end of 2017, as contributed by small retail spaces. It is expected to grow 8.1% YoY. We also expect more middle-upper class shopping centres to be completed up to 2019 in Surabaya.



Occupancy

Occupancy will likely fluctuate through 2018, as developers would likely consider refreshing their tenancy mix to attract more shoppers due to the coming additional supplies and tight competition against newly operating shopping centres.

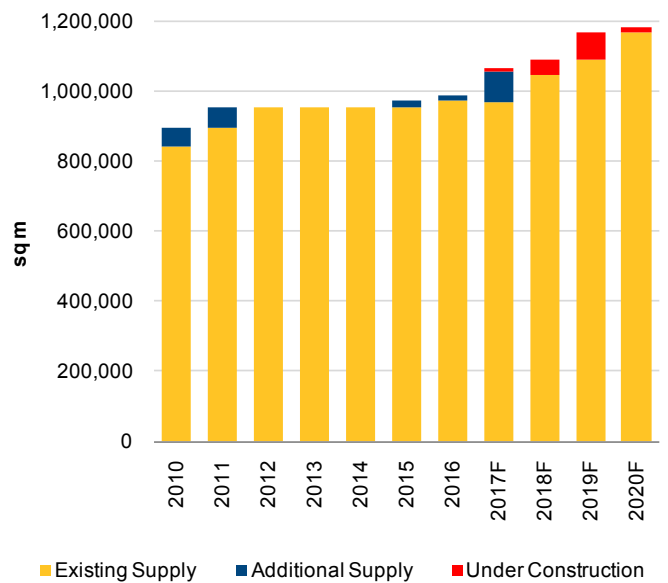


Rent

Rents are projected to continue increasing. Developers remain confident in offering high rents, particularly for middle-upper class shopping centres.

Supply

Cumulative Supply of Retail Centers in Surabaya

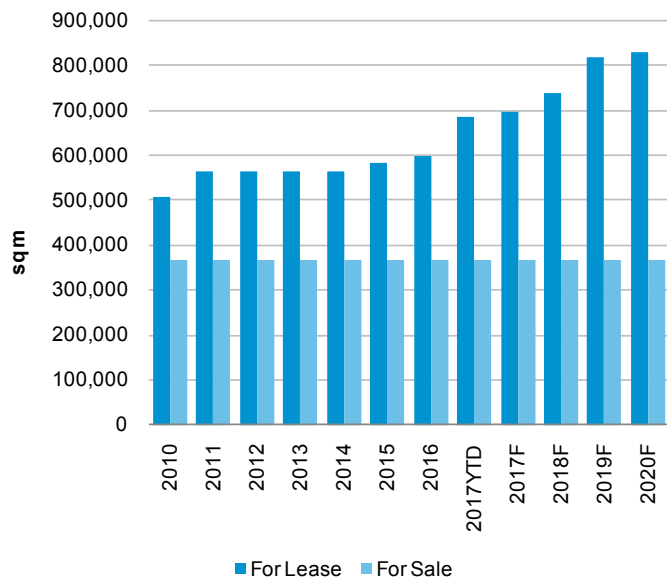


Source: Colliers International Indonesia - Research

In West Surabaya, the extension project of a shopping centre owned by Pakuwon Jati began operation, contributing a large additional retail supply as of H1 2017. Including two existing shopping centres, the total net lettable area of these shopping centres within Pakuwon Mall Complex was recorded at around 180,000 sq m. Pakuwon Mall caused the current cumulative retail supply of Surabaya to exceed one million sq m.

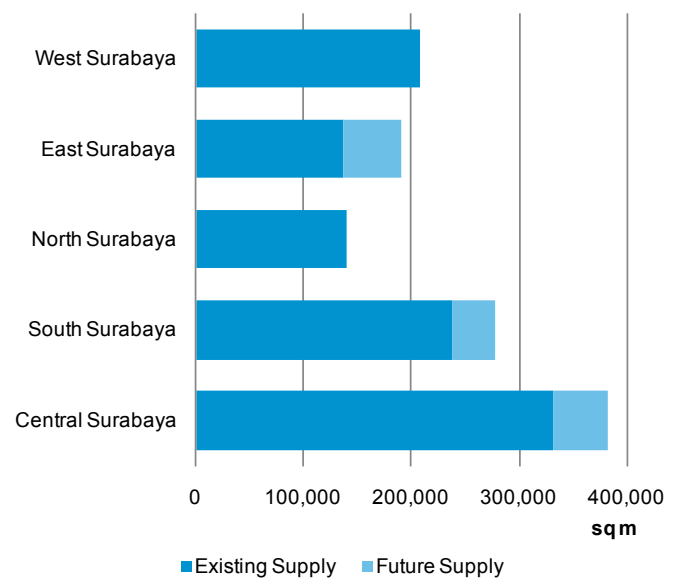
We are monitoring six future shopping centres that are pursuing completion and expected to bring a total of 145,000 sq m of additional retail space up to 2020. All of these future shopping centres are under construction as of H1 2017. With the exception of Tunjungan Plaza VI, the two other shopping centres, The Central and Praxis, expect to meet completion in 2017F and 2018F; they are small retail locations.

Cumulative Supply Based on Marketing Scheme



Source: Colliers International Indonesia - Research

Existing and Future Office Distribution in Several Regions in Surabaya



Source: Colliers International Indonesia - Research

Competition amongst shopping centres is expected to remain increasingly tight in the future. Based on area, besides Tunjungan Plaza VI (in Central Surabaya), we anticipate Ciputra World Surabaya Mall 2 (in South Surabaya) and Galaxy Mall 3 (in East Surabaya) to be completed in 2019. These two shopping centres are considered as higher-end malls in Surabaya.

We are also monitoring the suburban areas of Surabaya, which could potentially be developed as shopping centres. Development of the Outer East and West Ring Road (Jalan Lingkar Luar Timur and Jalan Luar Lingkar Barat) will possibly bring large-scale expansion projects in north-western and eastern Surabaya. At least one developer is implementing large-scale projects in Grand Pakuwon at Tandes and Pakuwon City at Mulyorejo, where a shopping centre will also be established within the complex.

New Supply Pipeline

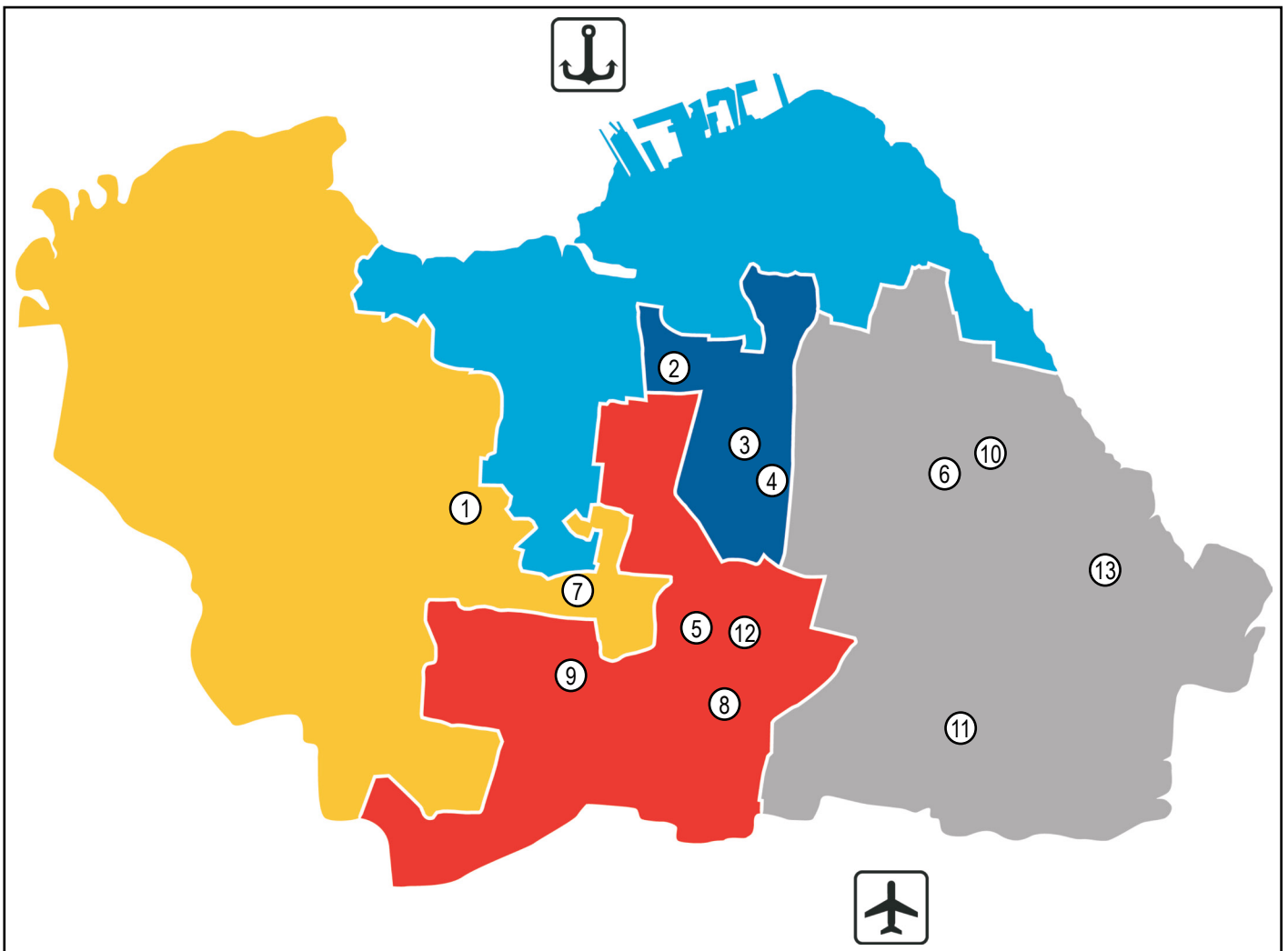
SHOPPING CENTRE	REGION	DEVELOPER	NLA (SQ M)	MARKETING SCHEME	DEVELOPMENT STATUS
2017					
Pakuwon Mall	West Surabaya	Pakuwon Jati	40,000	For Lease	Under Construction
The Central Gunawangsa Tidar	East Surabaya	Warna Warni Advertising	10,000	For Lease	Under Construction
2018					
Tunjungan Plaza VI	Central Surabaya	Pakuwon Jati	33,000	For Lease	Under Construction
Praxis	Central Surabaya	Intiland Development	9,000	For Lease	Under Construction
2019					
Ciputra World Surabaya 2	Central Surabaya	Ciputra	40,000	For Lease	Under Construction
Galaxy Mall 3	East Surabaya	Sinar Galaxy Group	40,000	For Lease	Under Construction

continued

SHOPPING CENTRE	REGION	DEVELOPER	NLA (SQ M)	MARKETING SCHEME	DEVELOPMENT STATUS
<i>continuation</i>					
2020					
Grand Sungkono Lagoon	South Surabaya	Pembangunan Perumahan	15,000	For Lease	In Planning
The Frontage	South Surabaya	Panca Wira Usaha Jatim	30,000	For Lease	In Planning
Puncak CBD	West Surabaya	Surya Bumimegah Sejahtera	30,000	For Lease	In Planning
Grand Dharmahasada	East Surabaya	Pembangunan Perumahan	20,000	For Lease	In Planning
Puri City Shopping Mall	East Surabaya	Mahkota Berlian Cemerlang	10,000	For Lease	In Planning
Equator	East Surabaya	Sinarmas Land	20,000	For Lease	In Planning
The Groove	East Surabaya	Diparanu Rucitra	20,000	For Lease	In Planning

Source: Colliers International Indonesia - Research

Map of New Pipeline for Shopping Centre in Surabaya



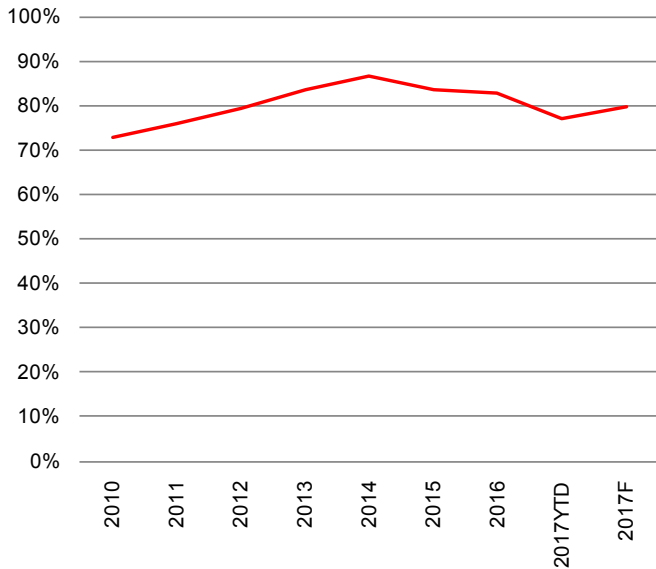
LEGEND			
1. Tunjungan Plaza VI	5. The Frontage	9. Puncak CBD	13. Equator
2. Praxis	6. The Groove	10. Grand Sungkono Lagoon	
3. Grand Dharmahasada	7. Puri City Shopping Mall	11. Pakuwon Mall	
4. Galaxy Mall 3	8. Ciputra World Surabaya 2	12. The Central Gunawangsa Tidar	

Source: Colliers International Indonesia - Research

Performance

Demand and Occupancy

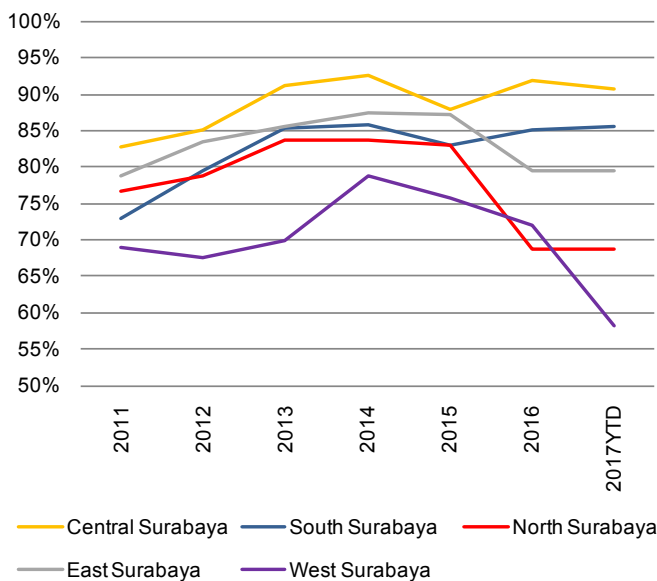
Occupancy Rates



Source: Colliers International Indonesia - Research

Larger additional supply caused average occupancy to decline 5.8% QoQ to 76.9%. Although some shopping centres have already secured high-commitment occupancies, most tenants are still doing fitting-out work before they officially open their stores. Therefore, Colliers expects that occupancy will gradually rebound in the remainder of 2017. Limited additional supply will also help occupancy rate reach 80% by the end of 2017.

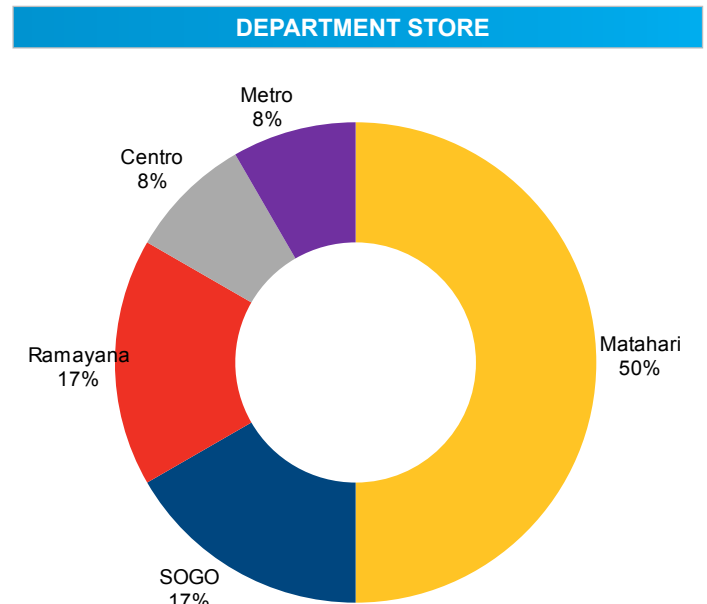
Occupancy Rates in Different Region of Surabaya



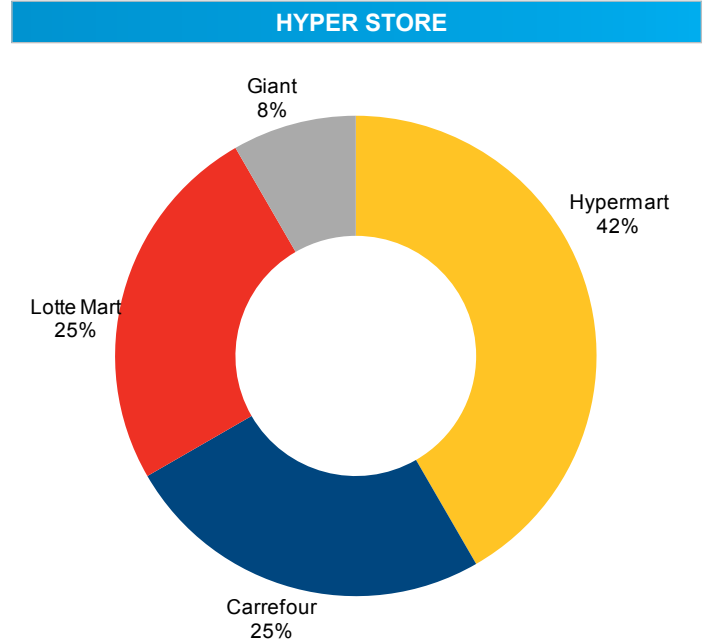
Source: Colliers International Indonesia - Research

Based on area, only a few shopping centres in South and Central Surabaya currently recorded occupancy rates below 80%. Despite slipping slightly YTD, Central Surabaya remains stable and maintains an average occupancy rate of 90%. Occupancy showed a declining trend in West Surabaya since 2014. However, we expect occupancy to rebound, particularly as a result of shopping centres owned by Pakuwon. In the other areas (South and East), the sluggish performance of trade malls will have an impact on the average projected occupancy rates.

Distribution of Major Tenant in Surabaya



Source: Colliers International Indonesia - Research



Source: Colliers International Indonesia - Research

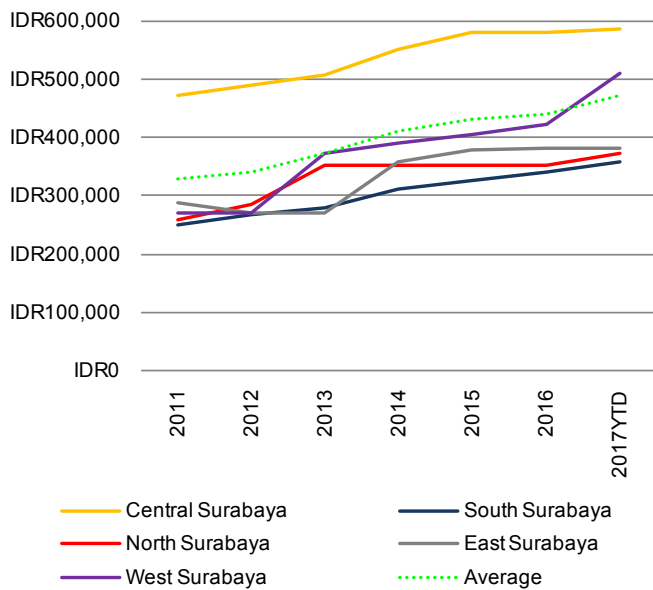
Apart from the larger additional supply, we also recorded some branded tenants that closed down at a shopping centre in Jalan Mayjend Sungkono. In another area, a shopping centre at Gubeng will seemingly refresh its tenancy mix to invite more visitors to shop. In addition, a new tenancy mix is expected to be able to compete both with existing and newly operating shopping centres, particularly in a similar class.

Some retailers have opened for the first time in Surabaya, as the first H&M store began operation at Pakuwon Mall. Fashion retailers remain a draw for shoppers in Surabaya, particularly teenagers. Besides H&M, Uniqlo also opened its first store in Surabaya, occupying spaces in Tunjungan Plaza and Pakuwon Mall.

Burger King also opened its first stores in Surabaya, specifically at Ciputra World Surabaya, Surabaya Plaza, Tunjungan Plaza and Pakuwon Mall.

Rental Rates

Average Rental Rates in Different Regions



Source: Colliers International Indonesia - Research

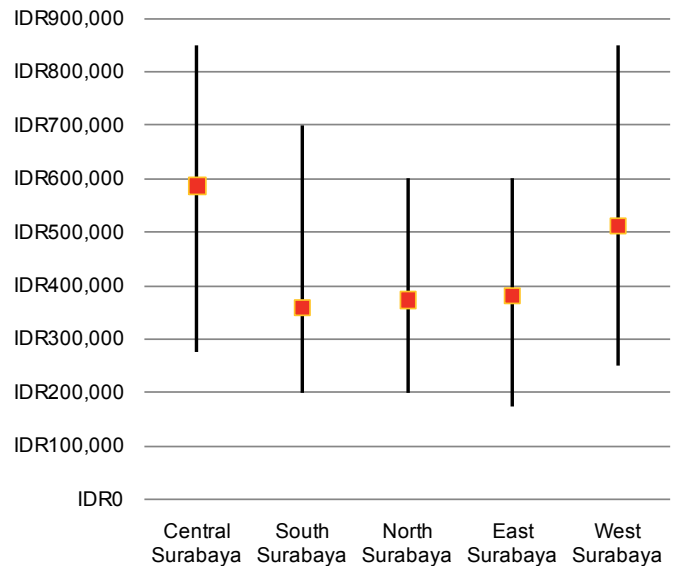
Newly operating shopping centres helped boost average asking rents in Surabaya, which registered IDR471,601/sq m/month as of H1 2017, increasing 7% YTD. In West Surabaya, the merger between the new Pakuwon Mall building and an older building has convinced the developer to offer similar rates for the whole retail area. This newly operating retail space also brought about growth in average asking rents in West Surabaya, increasing higher than in other areas. Average rents in West Surabaya jumped

around 20% to currently become the second-highest in the area. In other areas, well-known shopping centres such as Ciputra World Surabaya Mall and Pasar Atom Mall recorded increasing rents due to limited vacant spaces. These shopping centres increased their average rents in South and North Surabaya by 5% and 6% respectively.

The highest asking rents were recorded in West and Central Surabaya. However, we also recorded some trade malls in these areas that still offer asking rents below IDR300,000/sq m/month as of H1 2017. This situation caused Central and West Surabaya to record a larger range of rents than in other areas.

After some existing shopping centres adjusted their rents higher and without any new middle to higher-end shopping centres beginning to operate, we predict average rents to potentially continue to grow by the end of 2017.

Range of Asking Rent in Different Regions



Source: Colliers International Indonesia - Research

Service Charges

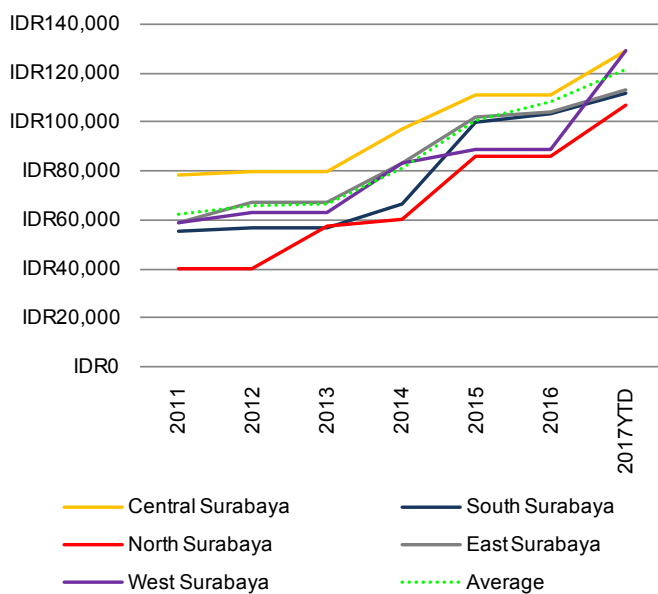
Service charges were currently recorded at IDR121,582/sq m/month. A developer increased its service charges twice for some of their shopping centres, at the end of 2016 and H1 2017. This adjustment pushed the average service charge to grow 12.5% YTD in Surabaya.

Based on our records, Tunjungan Plaza, Pakuwon Mall and Ciputra World Surabaya shopping centres offer the highest service charges in Surabaya.

Based on area, shopping centres largely within Central, West and North Surabaya increased their service charges between 6% and 20% YTD. These areas recorded double-digit growth in service charges YTD. North Surabaya recorded average service charges below East and South Surabaya. Despite only showing an 8% increase YTD, South and East Surabaya recorded a range of service charges larger than that in North Surabaya. Some shopping centres in East and South Surabaya recorded current service charges above IDR120,000.

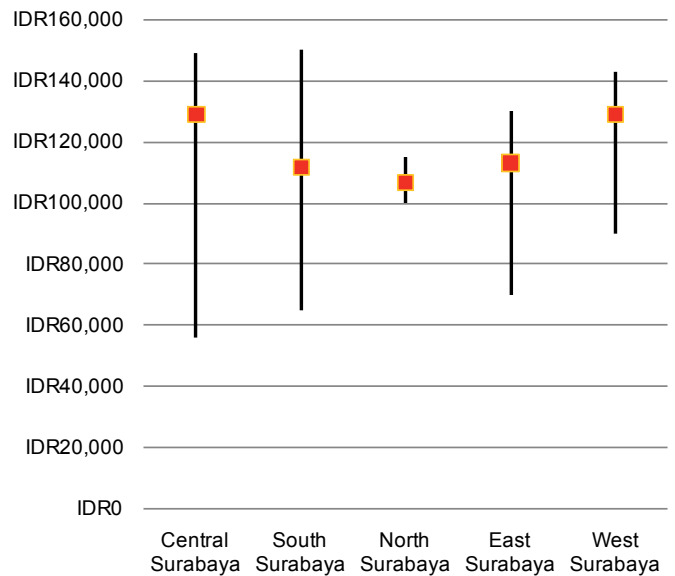
We predict that service charges will increase modestly for the remainder of 2017. This is due to, as mentioned above, some shopping centres having increased service charges in the first half of 2017.

Average Service Charges in Different Regions



Source: Colliers International Indonesia - Research

Range of Service Charges in Different Regions



Source: Colliers International Indonesia - Research

For more information:

Ferry Salanto

Senior Associate Director | Research
+62 21 3043 6888
ferry.salanto@colliers.com

Contributors:

Eko Arfianto

Senior Manager | Research

Copyright © 2017 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.