

Ferry Salanto Senior Associate Director | Jakarta

Local fashion retailers continued to receive more pressure from the expansion of foreign retailers, which offer both quality and affordability, particularly for youngsters and millennials. Meanwhile, we also expect to see the expansion of F&B brands, in line with the developing lifestyle in Surabaya.

We expect brick and mortar stores to survive in Surabaya despite the growing online market. Even so, the current trend nowadays is that successful online merchants still need to have a display store in shopping malls.

Forecast at a glance



Demand

Apart from F&B, the health and beauty industries will likely become more active retailers looking for retail space in Surabaya.



Supply

The addition of new retail space in Surabaya is planned to reach around 140,000 sq m in 2018-2020, representing 12.8% of current stock. During that period, supply should grow by 4.3% per annum.



Occupancy

Our three-year occupancy projection is relatively stable at 81%, given that the quantity of supply coming online is moderate.

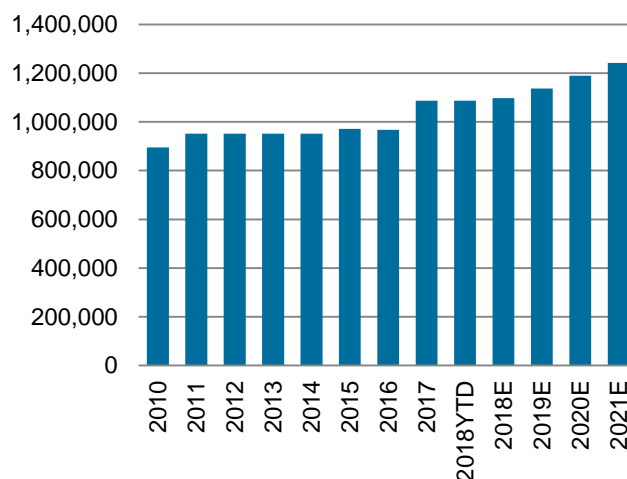


Rents

We forecast the average rents of shopping centres in Surabaya to increase by 5% from H1 to H2 2018 and should further climb by 3.6% from early 2019 to the end of 2020.

Supply

Cumulative Retail Supply in Surabaya

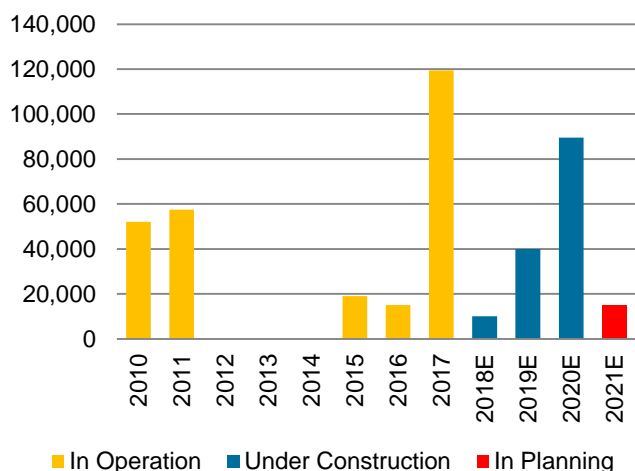


Source: Colliers International Indonesia - Research

Surabaya is anticipating a limited quantity of new retail supply through the end of 2018; probably only one new shopping centre will be ready for operation this year. As of H1 2018, the lack of new shopping centres in Surabaya for the last six months has maintained the total retail supply at 1.1 million sq m.

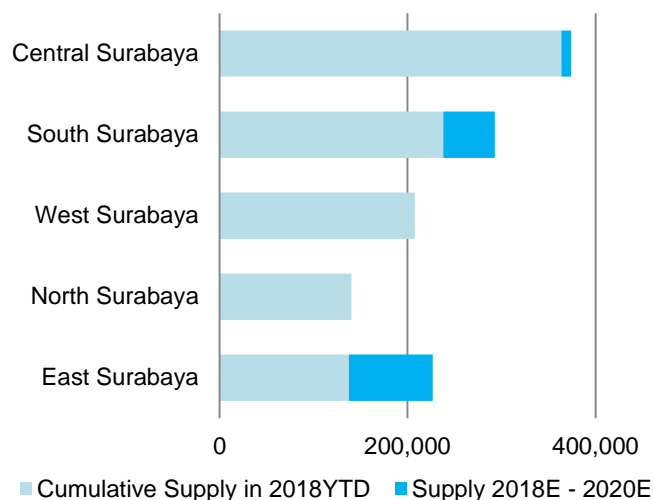
Going ahead, we expect at least five shopping centres to be completed between 2019 and 2021. Four of these are currently under construction and will likely open in 2019 or 2020. An increasing number of shopping centres are part of an integrated development with residential and retail functions complementing each other, i.e. the retail adding more value to the residences, whilst the residential provides a captive market for the shopping centres.

Annual Retail Supply in Surabaya



Source: Colliers International Indonesia - Research

Distribution of Existing and Future Retail Spaces in Surabaya



Source: Colliers International Indonesia - Research

NEW SUPPLY PIPELINE

SHOPPING CENTER	REGION	DEVELOPER	NLA (SQ M)	MARKETING SCHEME	DEVELOPMENT STATUS
2018					
The Central	Central Surabaya	Gunawangsa	10,000	For Lease	Under Construction
2019					
One Galaxy Mall	East Surabaya	Sinar Galaxy Group	40,000	For Lease	Under Construction
2020					
Ciputra World Surabaya Mall 2	South Surabaya	Ciputra Group	40,000	For Lease	Under Construction
Lagoon Avenue Dharmahasada	East Surabaya	PP Properti	12,545	For Lease	Under Construction
East Coast Center 2	East Surabaya	Pakuwon	36,920	For Lease	Under Construction
2021					
Grand Sungkono Lagoon Shopping Mall	South Surabaya	PP Properti	15,000	For Lease	In Planning

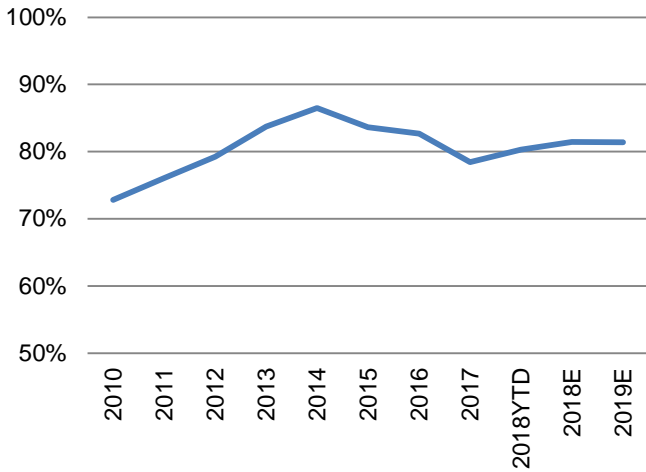
Source: Colliers International Indonesia - Research

More shopping centres are scheduled to be developed in East and South Surabaya, underpinned by rapid residential development in the eastern region.

Performance

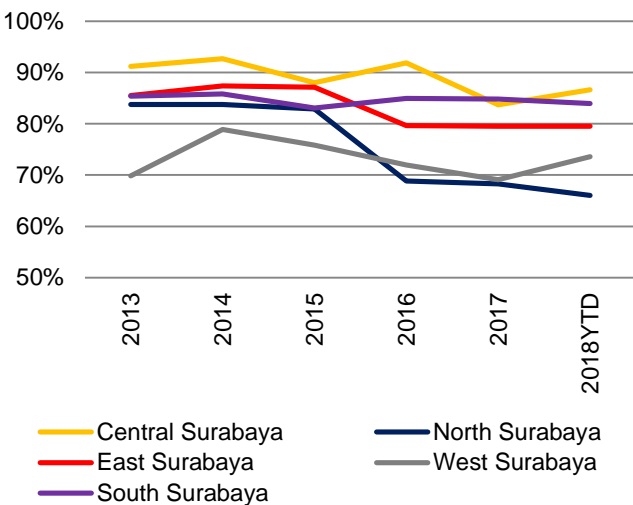
Demand and Occupancy

Average Occupancy Rate



Source: Colliers International Indonesia - Research

Average Occupancy Rates in Different Regions of Surabaya



Source: Colliers International Indonesia - Research

Bomb attacks that took place in Surabaya in mid-May had a short-term impact on mall visitation, especially in restaurants. Several stores closed temporarily, reducing foot traffic for several days. According to the Association of Indonesian Café and Restaurant Entrepreneurs (APKRINDO), sales volume or the number of visitors in East Java was only around 10-20% than normal. In the same month, events such as the Surabaya Shopping Festival 2018 effectively regained shoppers' confidence to visit the malls.

According to the Central Statistics Bureau (BPS), albeit moderate, East Java's Consumer Tendency Index (Indeks Tendensi Konsumen [ITH]) improved in Q1 2018, compared to that in Q4 2017. The survey revealed the business and economic situation regarding purchasing plans for several product categories such as food, clothing, education, transportation, health and luxury goods. The BPS projects that the index is expected to improve in Q2 2018.

In addition, the Association of Indonesian Shopping Centres (APPBI) East Java continued to aggressively seek ways to encourage transactions in the malls. APPBI works closely with Bank Negara Indonesia (BNI) in applying for EDC (Electronic Data Capture) to improve a number of merchants in several Surabaya shopping malls.

Above all, the average occupancy rate of shopping centres in Surabaya was recorded to only edge up by 1.2% HOH to 79.6% this semester. Newly opened malls that bring fresh tenancy mix and offer attractive sales programmes have heightened the competition amongst shopping malls in an environment where we have seen some fashion and F&B retailers have closed shop.

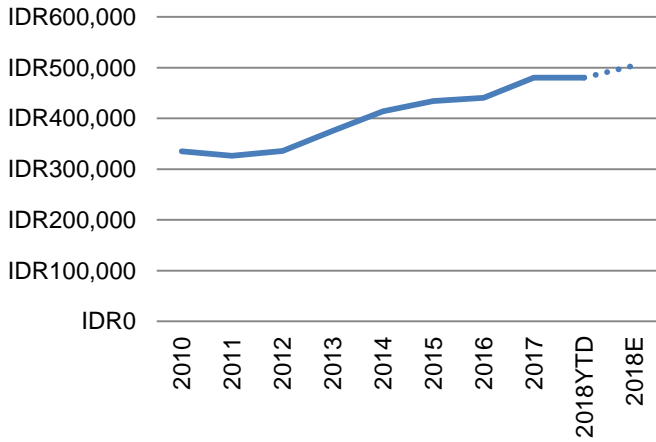
E-commerce trading has yet to erode the overall business of local retailers in Surabaya. However, the immediate competition might come from international brands. Major foreign brands such as H&M and Uniqlo have added more challenge to retailers, competition-wise. Competitive prices, good product packaging and presentation are amongst the considerations for shoppers to accept the concept presented by most international brands.

In addition to retailers, mall landlords also rearrange and refresh their tenancy mix in order to keep up with the competition. Some existing malls, including Grand City and Ciputra World Surabaya, attempt to revivify their tenant composition by having more F&B retailers, in order to raise the number of visitors.

Over the remainder of 2018 to the end of 2019, we estimate average occupancy to stay around 81-82%. This is mainly due to a positive consumer index and sound economic growth projections, as well as by a relatively regulated quantity of future supply over the coming years.

Rents

Average Rental Rates

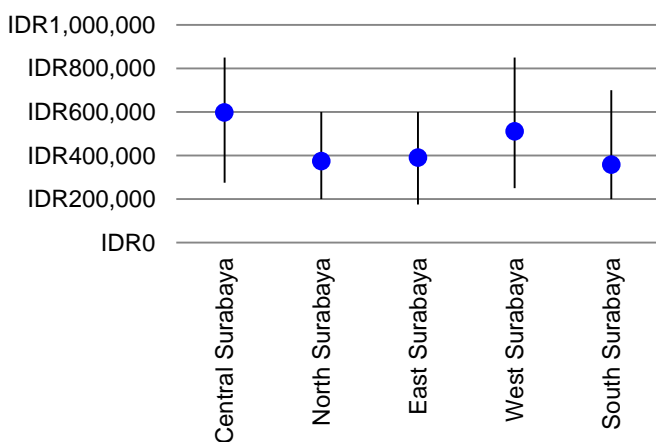


Source: Colliers International Indonesia - Research

Compared to the previous semester, average rent was stagnant at IDR480,542/sq m/month, as landlords generally focus on maintaining or even increasing their occupancy level. Even so, some malls with retail location in demand are confident in introducing a 15% rental increase for tenants whose lease contracts are expiring. Because of this, we expect to see the average rent adjusting up by 5% YOY at the end of 2018.

Ciputra World Surabaya, Grand City, Galaxy Mall, Tunjungan Plaza and Pakuwon Mall are still the most expensive retail locations in Surabaya, as they are categorised as upper-class shopping centres with asking rents starting from IDR500,000 up to IDR850,000/sq m/month.

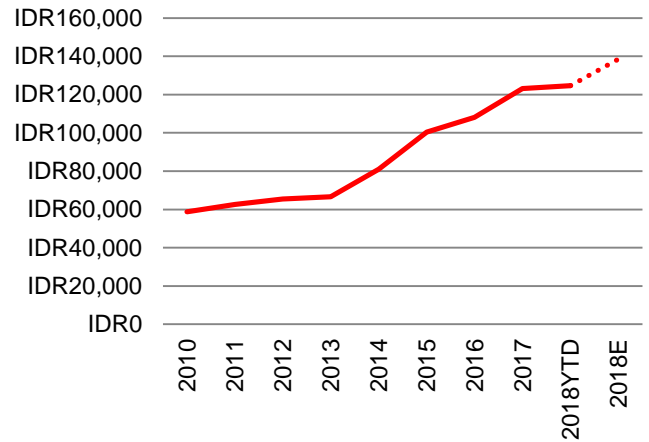
Average Rental Rates in Different Regions



Source: Colliers International Indonesia - Research

Service Charges

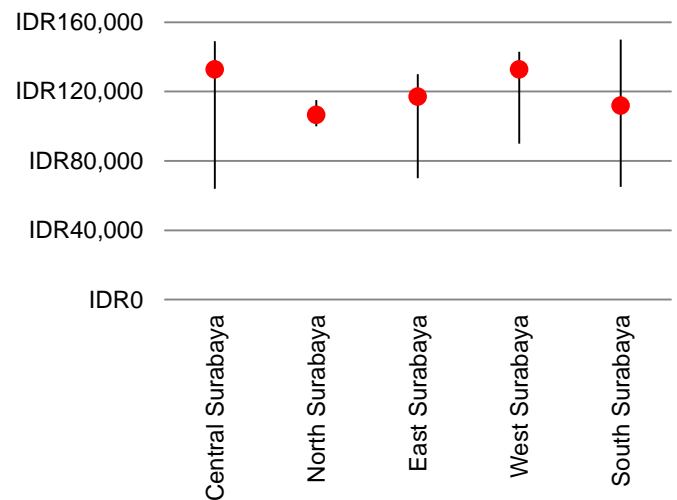
Average Service Charges



Source: Colliers International Indonesia - Research

In the last six months, most of the shopping centres did not change their service charges; only a few adjusted the tariff higher by 1-5%, bringing the average cost to IDR124,614/sq m/month.

Range of Service Charges in Different Regions



Source: Colliers International Indonesia - Research

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