

# SURABAYA | OFFICE

## Office Sector

Ferry Salanto Senior Associate Director | Research

Office demand was not yet strong in Surabaya. A larger additional supply brought occupancy to drop significantly. Occupancy is still forecasted to further go down in 2017.

Despite decreased occupancy, average asking rents were seen to be increasing, mainly contributed by newly operating office buildings.

### Forecast at a glance



#### Supply

Four office buildings began operation and brought 78,081 sq m additional supply in 2016, the largest annual supply since 1990. These four office buildings also brought the cumulative supply growth to 29% YoY. However, future supply in 2017 is expected to be lower than the previous year. Two strata-title office buildings are expected to meet completion and begin operation in 2017. Based on area, East and West Surabaya are expected to be the largest contributors for future supply.



#### Occupancy

Larger additional supply and slowing demand caused Larger supply and sluggish demand caused occupancy to fall by 75.1%, around 12% YoY. Occupancy is forecasted to continue to decrease in 2017. The average additional supply per year increased two times faster than the annual demand between 2010 and 2016. On the other hand, the finance industry, particularly banking and insurance, hold to expand its business due to a slowing down economy. Shop houses also still became a big threat for office markets in Surabaya.



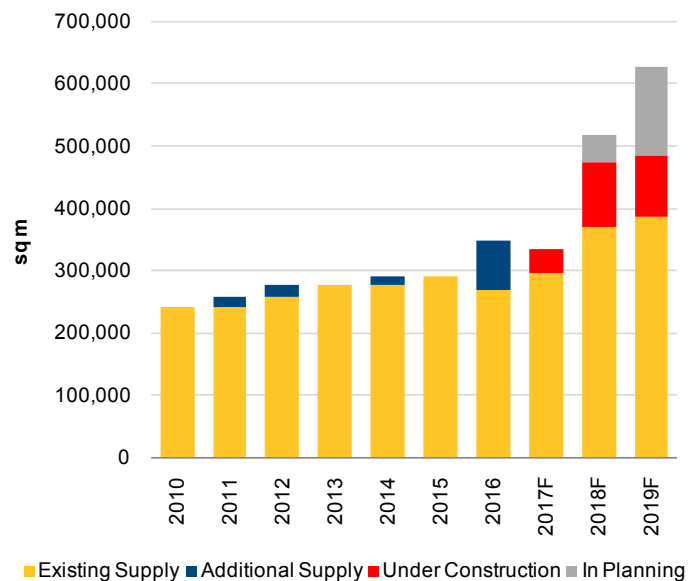
#### Rent

Newly operating office buildings contributed and brought the average rent at IDR144,150/sq m/month, an increase of 32% YoY. The rent is expected to remain relatively flat due to larger vacant spaces that will continue to exist in 2017.

## OFFICE FOR LEASE

### Supply

#### Cumulative Office Supply



Source: Colliers International Indonesia - Research

AMG Tower and Skyline Office Tower, both located in South Surabaya, began operations in H2 2016. Including Pakuwon Centre and MNC Tower that began previously operation in the first semester, these four office buildings provided 78,081 sq m additional office spaces and brought in 2016 the largest total supply in Surabaya since 1990. This additional supply also allowed the cumulative supply to grow significantly by 29% YoY and currently recorded at 347,333 sq m.

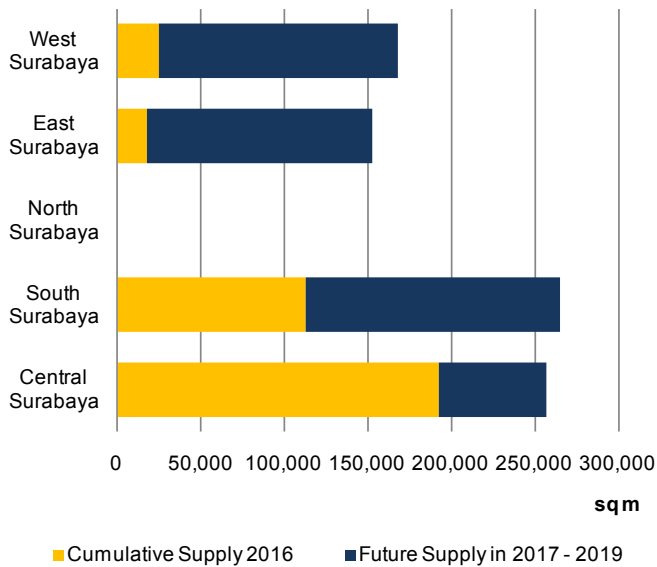
Future supply is expected to be available in the coming years. Two office buildings namely Samator Skysuites and Ciputra World Surabaya Skyloft will seemingly meet their completion in 2017. These two office buildings will introduce and provide the SOHO (Small Office, Home Office) concept in Surabaya. Also, office supply is expected to thrive in Surabaya, with a total of 16 office buildings expecting completion, bringing around 430,000 sq m additional office space in 2017-2019. With a huge projected future supply, the cumulative office supply will grow 40% per annum in Surabaya until 2019.

Based on construction progress, 55.8% of the total future office space, which includes 10 office buildings, has started construction. Some of these office buildings are preparing to start basement works, whilst Praxis and Pakuwon Tower showed significant construction progress as of H2 2016.

Office building projects is expected to rise in other places, as Central Surabaya is seen to slow down due to limited vacant lands. Developing MERR (Middle East Ring Road) and OERR (Outer East Ring Road) will significantly impact future developments, particularly in East Surabaya. At least three future office buildings will be developed in the surrounding MERR. More future office buildings are concentrated around or having accessibility to the main road. West and South Surabaya are expected to lead as major contributing areas by constructing 10 future office buildings up to 2019. Most of these future office buildings will be developed around Jalan Mayjend Sungkono and HR Muhamad. Meanwhile, Satoria and two office buildings within Ciputra World Surabaya Complex have been recently launched.

Central Surabaya will become the lowest contributor, providing only two office buildings, Praxis and Pakuwon Tower.

### Existing Supply and Future Office Distribution in Several Regions in Surabaya



Source: Colliers International Indonesia - Research

Based on marketing scheme, Pakuwon Centre and AMG Tower will provide new office spaces for sale (strata-title office buildings). These two office buildings brought the total office for sale supply to 111,881 sq m in 2016. More office buildings are expected to provide office spaces for sale in Surabaya. Meanwhile, Samator Skysuites and Ciputra World Skyloft are expected to begin operation in 2017. Also, Surabaya will see larger additional office spaces for sale in 2018. Pakuwon Tower, Spazio Tower and Voza Tower are expected to meet completion and bring around 80,000 sq m new additional office spaces for sale in 2018.

### Cumulative Supply Based on Marketing Scheme

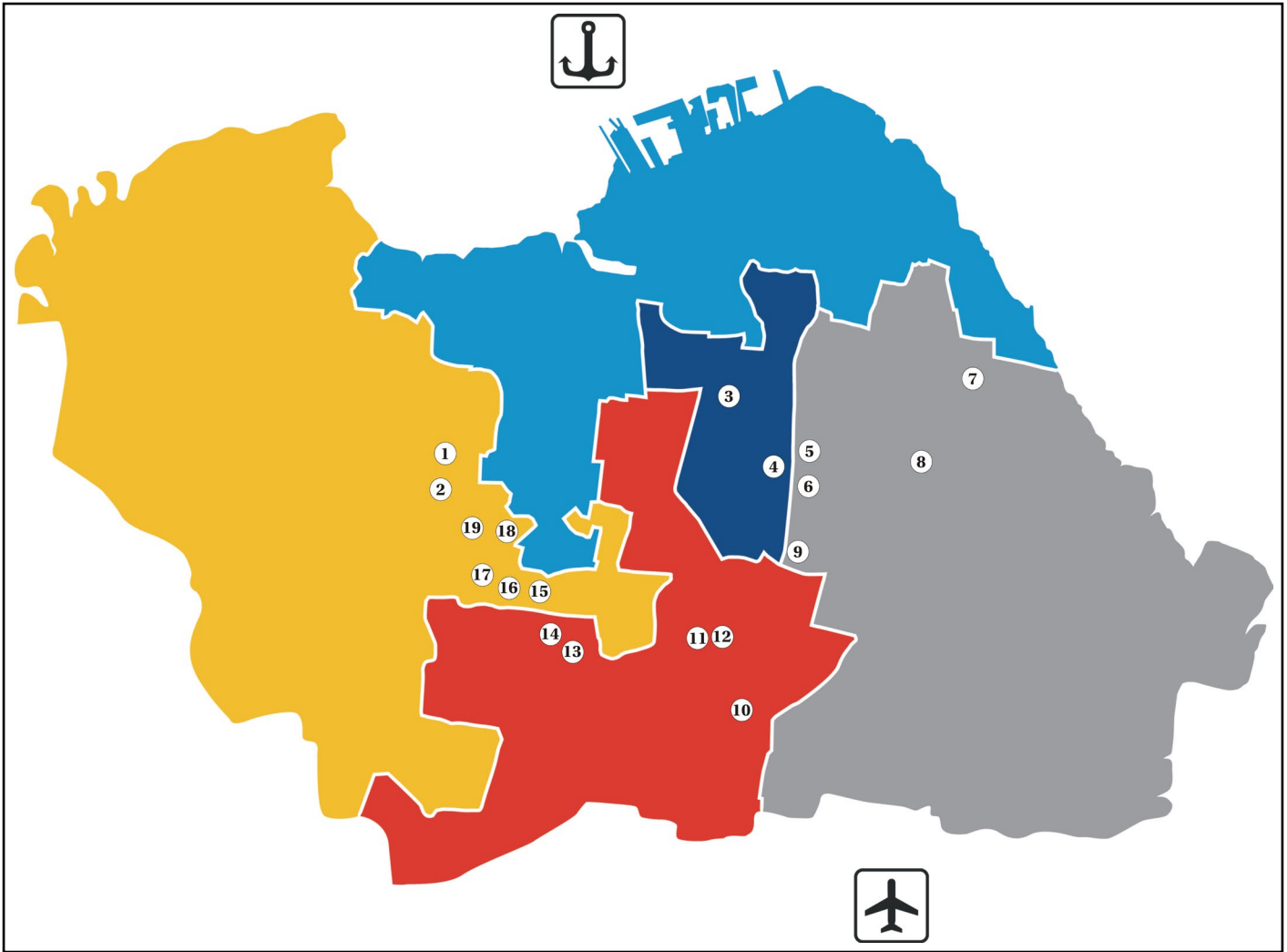


Source: Colliers International Indonesia - Research

New Supply Pipeline				
OFFICE BUILDINGS PROJECT NAME	LOCATION	DEVELOPER	SGA (SQ M)	MARKETING SCHEME
<b>2017</b>				
The Samator Skysuites SOHO	Kedung Baruk	Samator Land PT	22,000	For Sale
Ciputra World Surabaya Skyloft SOHO	Mayjend Sungkono	Ciputra Group	16,745	For Sale
<b>2018</b>				
Praxis Office Tower	Panglima Sudirman	Intiland Development Tbk PT	12,000	For Lease & Sale
Voza Office Tower	HR Muhammad	Avia Avian	18,607	For Sale
Pakuwon Tower	Basuki Rahmat	Pakuwon Jati	39,740	For Lease & Sale
Office Tower at Puncak Dharmahusada	MERR, Mulyorejo	Surya Bumimegah Sejahtera PT	42,500	For Lease
Spazio Tower	Bukit Darmo Boulevard	Intiland Development Tbk PT	20,000	For Sale
<b>2019</b>				
Office Tower at Marvell City	Ngagel	Assa Land PT	12,000	For Lease
Capital Square	HR Muhammad	Greenwood	39,950	For Lease
Satoria Tower	HR Muhammad		34,000	For Sale
Office Tower at 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
Office Tower at Puncak CBD Jajar Tunggal	Jajar Tunggal	Surya Bumimegah Sejahtera PT	30,000	For Lease
Office Tower at Puncak Bukit Golf Square	Bukit Darmo Boulevard	Surya Bumimegah Sejahtera PT	30,000	For Lease
<b>2020</b>				
The Frontage	Ahmad Yani	Trikarya Graaha Utama	30,000	For Sale
Office Tower at 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

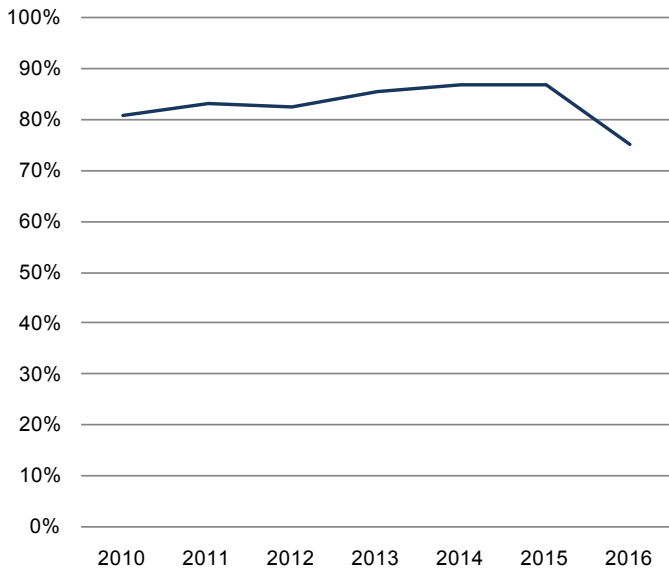
1. The Infinity 88 Avenue	6. The Samator Skysuites SOHO	11. Ciputra World Surabaya Skyloft SOHO	16. Voza Office Tower
2. The SOHO 88 Avenue	7. Puncak Dharmahusada	12. Ciputra World Surabaya Office Tower	17. Spazio Tower
3. Pakuwon Tower	8. One Galaxy	13. Puncak CBD Jajar Tunggal	18. Satoria Tower
4.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

Source: Colliers International Indonesia - Research

# Performance

## Occupancy Rates

### Occupancy Rates



Source: Colliers International Indonesia - Research

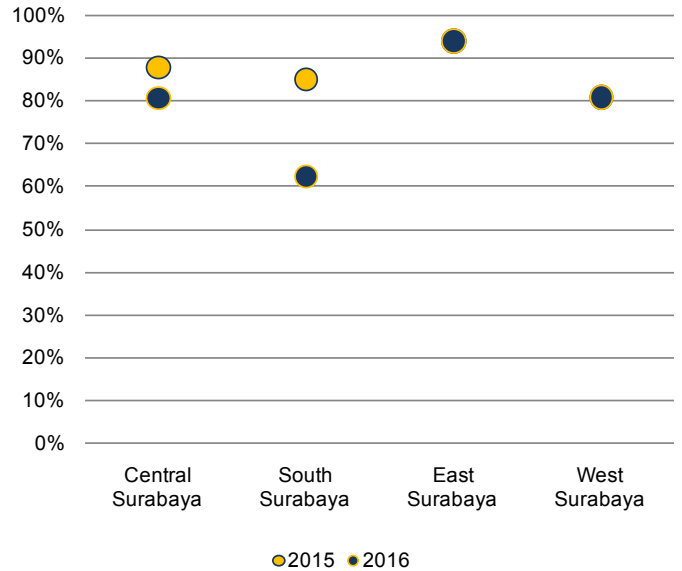
Occupancy continued to drop at 75.1%. The sluggish economic growth and large additional supplies (as mentioned above) greatly impact occupancy, making it declining 11.8% YoY. Surabaya recorded occupancy below 80% in 2008, but showed an increasing trend and was maintained above 80% up to 2015. This growth was due to the average supply that was recorded in line with demand from 2009 to 2015. Meanwhile, supply of office space in 2016 was larger than the total additional supply in 2009-2015.

The finance industry, consisting of banking, securities and insurance companies, is still a key demand generator in Surabaya. Nevertheless, absorption was recorded very soft for each office building in 2016. Moreover, an office building maintained larger vacant spaces since Bank Mandiri, its major tenant, relocated to Tunjungan.

South Surabaya showed a decreasing occupancy YoY. Occupancy fell significantly in South Surabaya due to a large additional supply, and currently slumped 22.7% YoY to 62.4%. Larger additional supply also significantly impacted the average occupancy rates in Central Surabaya. Despite falling by 7.1% YoY, Central Surabaya maintained its occupancy above 80% in 2016. Conversely, occupancy showed relatively flat in West and East Surabaya, YoY. However, three office buildings in East and West Surabaya still currently have a total of 5,500 sq m vacant spaces.

Although occupancy dropped significantly, most large vacant spaces were contributed by newly operating office buildings. These newly operating office buildings recorded an average occupancy of 30% as of 2016. With lower future supply and the forecasted economic growth, occupancy is expected to bounce back in 2017, although gradually.

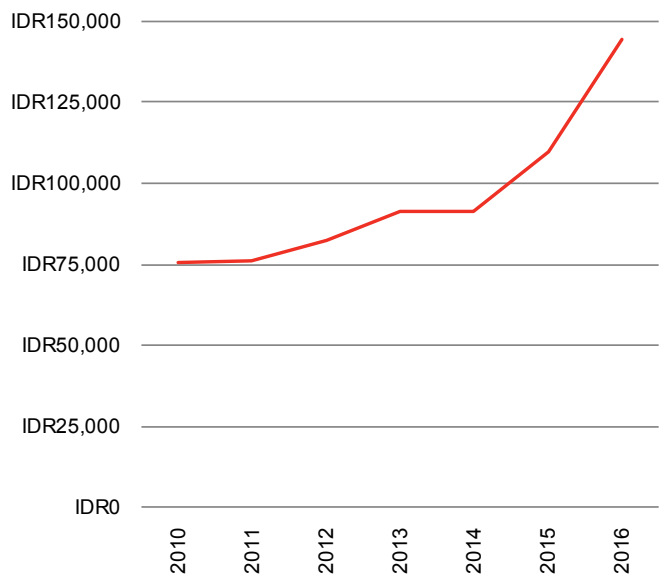
### Occupancy Rates in Different Regions of Surabaya



Source: Colliers International Indonesia - Research

## Asking Base Rent

### Average Asking Base Rent

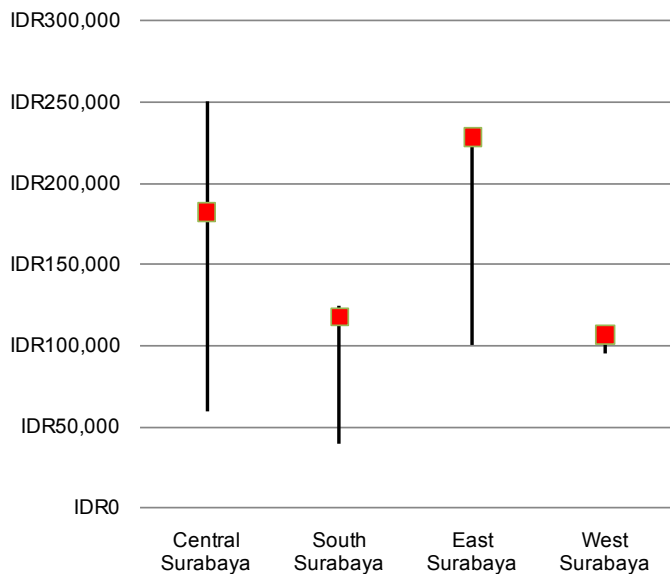


Source: Colliers International Indonesia - Research

The asking base rental jumped significantly starting in 2015. The average rents continued to grow 38.4% YoY and stood at IDR151,552/sq m/month in 2016. It was contributed by four new office buildings that offer base rental above market prices. Pakuwon Center, which is located within a mixed-use development area in the city centre, currently recorded the highest asking base rental in Surabaya.

Most unabsorbed spaces are located in office buildings that offer a higher base rental. Based on region, except East Surabaya, most areas recorded asking base rentals between IDR100,000 and IDR120,000/sq m/month in previous year. The newly operating office buildings brought the average rents at IDR131,778 and IDR182,096/sq m/month in South and Central Surabaya, respectively. Also, the significantly rising asking base rental in Central Surabaya was due to MNC Tower and Pakuwon Centre. Although these office buildings offer high rents, most office buildings, particularly old office buildings, currently offer base rental below IDR100,000/sq m/month in Central Surabaya. Newly operating office buildings also contributed to bring the average rent in South Surabaya jumping at 30% YoY. Meanwhile, the significant rental increase in South Surabaya caused average rent to be the lowest in West Surabaya. Average asking rent stabilised at IDR106,686/sq m/month in West Surabaya YoY. However, office supply is expected to grow in West Surabaya, particularly at Jalan HR Muhammad and Darmo. The development of more high-quality office buildings would likely boost the projected average rents to increase in West Surabaya.

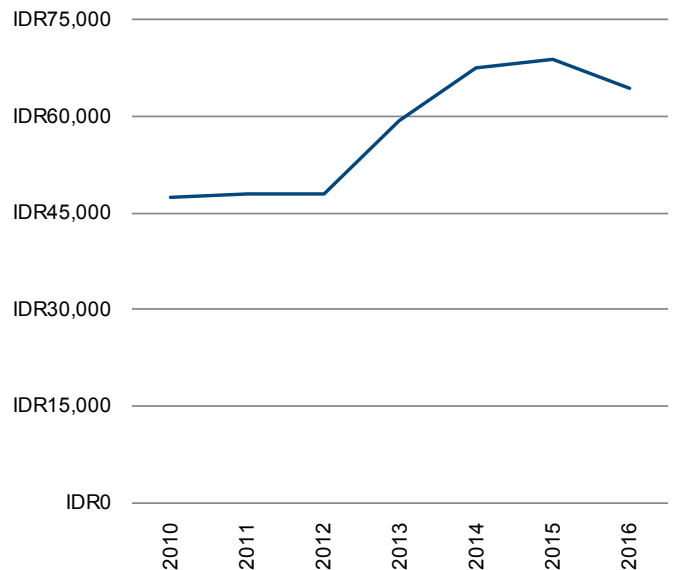
### Average Asking Rent in Different Region of Surabaya



Source: Colliers International Indonesia - Research

## Service Charge

### Average Service Charge



Source: Colliers International Indonesia - Research

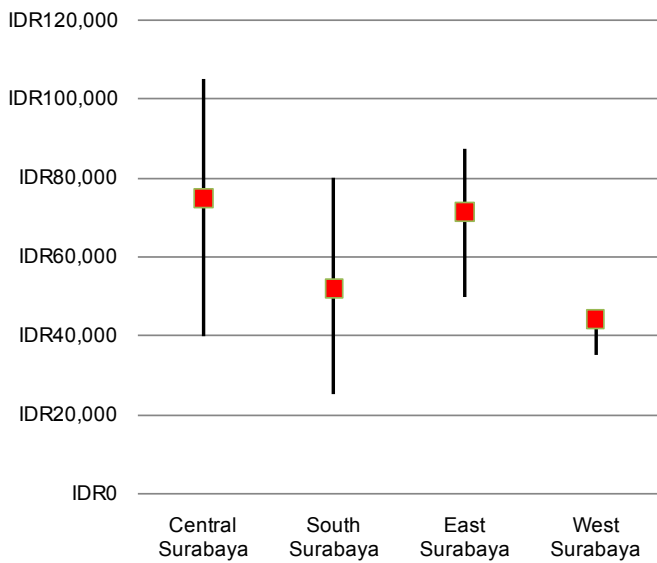
Service charge was currently recorded between IDR25,000 and IDR105,000/sq m/month. At least seven office buildings recorded the highest service charges, between IDR80,000 and IDR110,000/sq m/month. Two office buildings showed the highest growth of service charge by 14% YoY.

Newly operating office buildings impacted the average service charges in 2016 in different ways. Except for Pakuwon Centre, service charge was recorded below IDR55,000/sq m/month at the other three new office buildings. Two of them are strata-title office buildings for sale.

These office buildings, mentioned above, offer service charges below market prices and contributed to bring the average service charge at IDR64,420/sq m/month in 2016, a decrease of 6.6% from the previous year.

Service charge showed an increase of 9.2% in East Surabaya, but substantially dropped 24.8% in South Surabaya. Service charge was recorded relatively flat YoY in other areas, Central and West Surabaya.

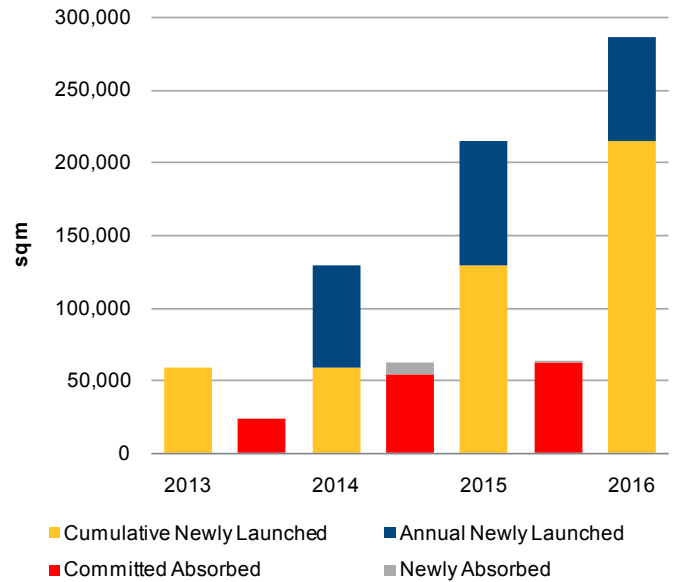
## Average Service Charge in Different Region of Surabaya



Source: Colliers International Indonesia - Research

## OFFICE FOR SALE/STRATA-TITLE

### The Performance at Newly Launched Strata-Title Office in 2013 - 2016



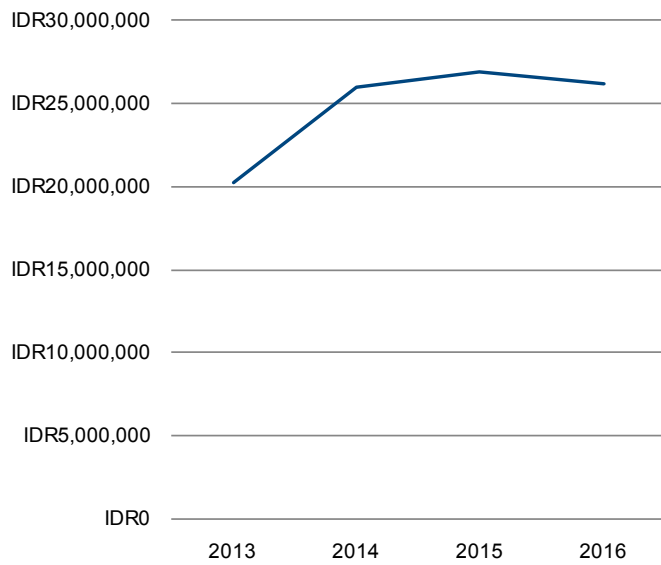
Source: Colliers International Indonesia - Research

Supply of office space for sale is expected to increase significantly until 2019. As AMG Tower and Pakuwon Centre began operation in 2016, at least eight future strata-title office buildings will bring almost 220,000 sq m total additional office spaces for sale in Surabaya from 2017 to 2019. Three strata-title office buildings were launched in 2016, two of which are located within Ciputra World Surabaya Complex. After Ciputra SOHO began construction, the landlord currently launched Ciputra World Surabaya Office and Vie Loft SOHO. The other strata-title office building is Satoria, located in Jalan HR Muhammad. Ciputra World Surabaya Office and Satoria are expected to meet completion in 2019, whilst Vie Loft in 2020.

Providing huge projected additional supply, the market for strata-title office building will face a bigger challenge in Surabaya. Take-up rate was not more than 40% for the overall strata-title office buildings in 2016. Furthermore, the current take-up rate commitment was only around 18% for strata-title office buildings in 2017-2019.

With a large number of unabsorbed spaces and poor demand, office market for sale is forecasted to see a tight competition, significantly impacting its projected asking prices. The growth of asking prices recorded relatively flat YoY. Asking prices remain between IDR20 million and IDR30 million/sq m for vacant spaces at newly operating and mostly future office buildings.

## Annual Space Absorbed for Future Office Building



Source: Colliers International Indonesia - Research

## Concluding Thought

Supply is expected to grow more particularly in the southern part of Surabaya while East and West Surabaya are expected to connect by building infrastructure, particularly developing a ring road. South Surabaya, on the other hand, will benefit from the growth of these two areas.

More future office buildings will be developed within a mixed-use concept. This is due to the fact that the office market was still seen unsteady, mainly threatened from shop house. An integrated development is expected to benefit each development.

### For more information:

#### Ferry Salanto

Senior Associate Director | Research

+62 21 3043 6888

ferry.salanto@colliers.com

### Contributors:

#### Eko Arfianto

Manager | Research

Copyright © 2016 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.