

SURABAYA | RETAIL

Retail Sector

Ferry Salanto Senior Associate Director | Research

Supply is expected to grow. Six future shopping centres are currently under construction and expected to meet completion consecutively starting from 2017 to 2019.

Occupancy maintained a healthy level despite sliding YoY. More committed tenants are expected to open when the mall officially begins operation.

Some branded fashion retailers are aiming to expand in Surabaya, particularly middle-upper class shopping centres.

Forecast at a glance



Supply

Retail supply is expected to grow in Surabaya. At least, six shopping centres are currently under construction. Two of these shopping centres will bring the cumulative supply to one million sq m in 2017, which is a 5.2% increase from 2016.



Occupancy

Occupancy remained at 83% in 2016, improving despite very modest HoH. However, occupancy was recorded lower YoY. Larger additional supplies will bring a challenge for the projected occupancy rates. Fashion, food and beverages still remain as demand generators for shopping centres in Surabaya.



Rent

Rent was recorded at IDR438,718/sq m/month, climbing gradually YoY. Landlords prefer to boost their occupancy rates than adjusting their asking rents higher than previously. Asking rents were affected by upper class shopping centres in Surabaya.

Supply

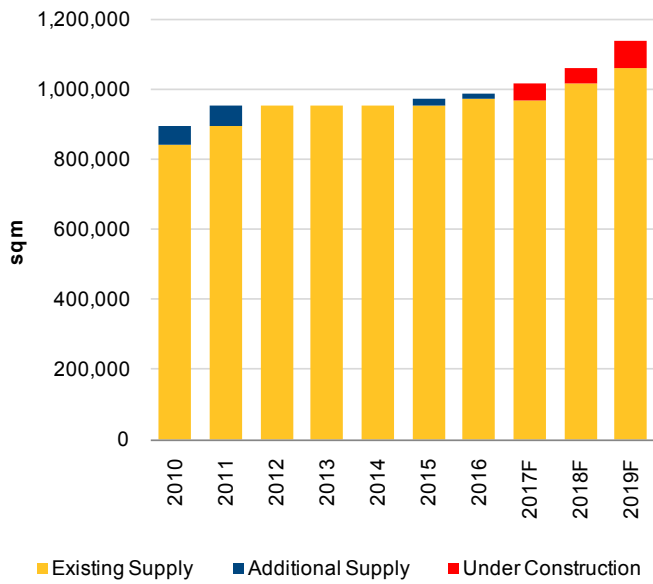
Marvell City began operation and contributed 15,000 sq m of new additional supplies, whilst Golden City Mall stopped operation. Without additional supply as of H2 2016, the cumulative supply was currently recorded at 967,808 sq m; 61.9% of the total supply is marketed for lease. The supply of retail spaces for lease is expected to continue increasing whilst strata-title retail showed a stagnant supply since 2009.

Surabaya's cumulative supply will reach a million sq m in 2017. In total, Surabaya will provide 172,000 sq m future additional supply, which will be contributed by six shopping centres from 2017 to 2019. These six shopping centres are currently under construction and which are particularly part of office and residential development. Pakuwon Mall and The Central Gunawangsa Tidar will seemingly meet completion and ready to start operation in early 2017. The other shopping centres still under construction are Galaxy Mall 3, Tunjungan Plaza VI, Ciputra World Surabaya 2 and Praxis. Praxis will only provide small spaces in a retail centre, which is integrated with an office building in one tower. In addition to Pakuwon Mall and Tunjungan Plaza VI, the developer will begin constructing the extension of East Cost Centre within Pakuwon City (East Surabaya). This shopping centre will be developed as a community mall that will bring a lifestyle concept for residents who live in surrounding shopping centres. The World Trade Centre (WTC), which is known as e-mall (electronic mall) and located at the city centre of Surabaya, is also enlarging the retail spaces. The extension of WTC is currently under construction and expects to meet completion in early 2017.

Other shopping centre projects were also announced and are expected to be ready for operation after 2019. Most of them will also be within a mixed-use development.

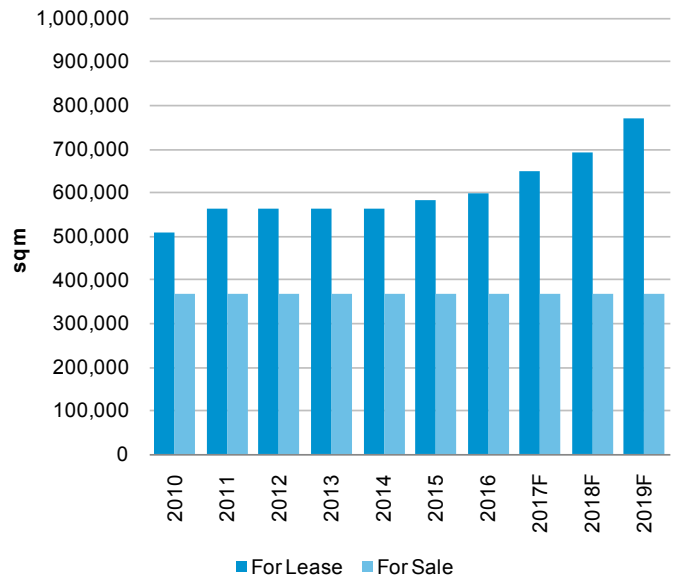
Based on area, except North Surabaya, all areas of Surabaya will actively contribute new retail spaces from 2017 to 2019. Three of the six future shopping centres mentioned above will be located in Central Surabaya. These three shopping centres will contribute 30% of the total future supply in 2017-2019. Furthermore, East Surabaya expects to become a generator of retail supply with its growing infrastructure and residential developments.

Cumulative Supply of Retail Centers in Surabaya



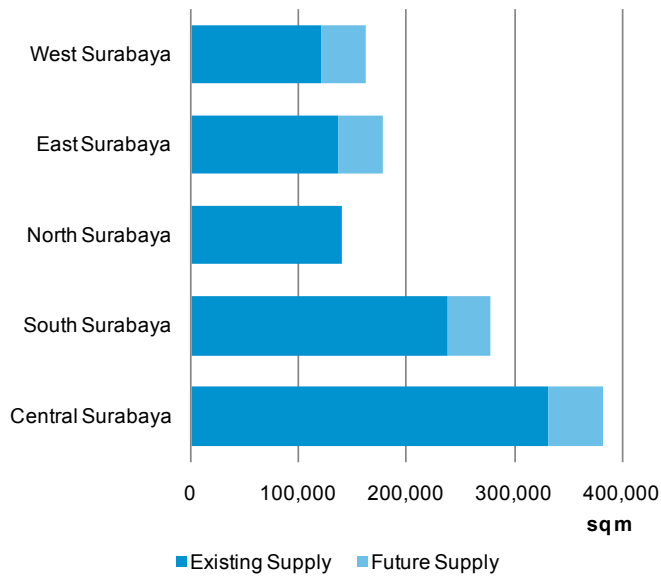
Source: Colliers International Indonesia - Research

Cumulative Supply Based on Marketing Scheme



Source: Colliers International Indonesia - Research

Existing and Future Office Distribution in Several Regions of Surabaya up to 2019

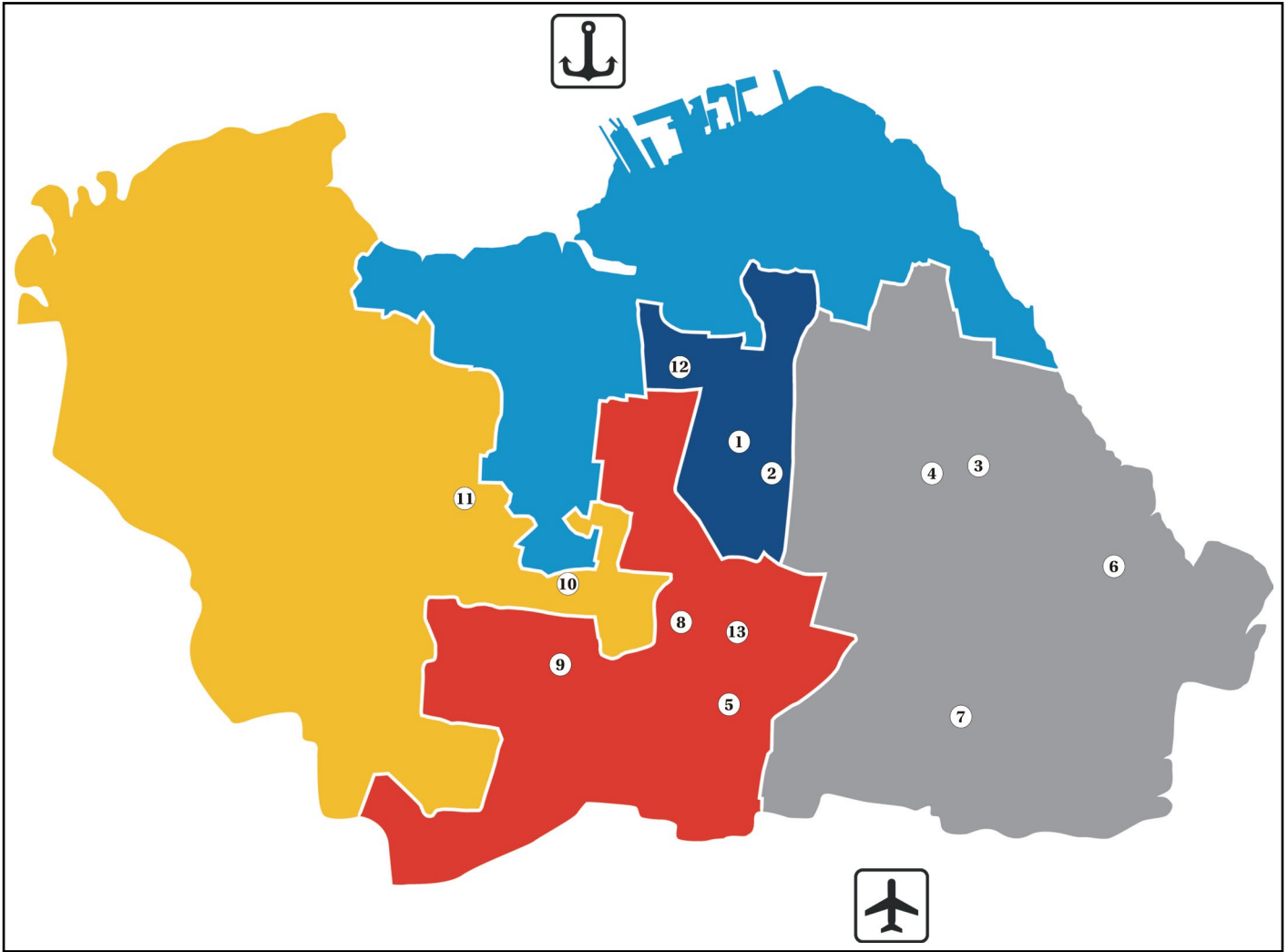


Source: Colliers International Indonesia - Research

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
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 Dharmahusada	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



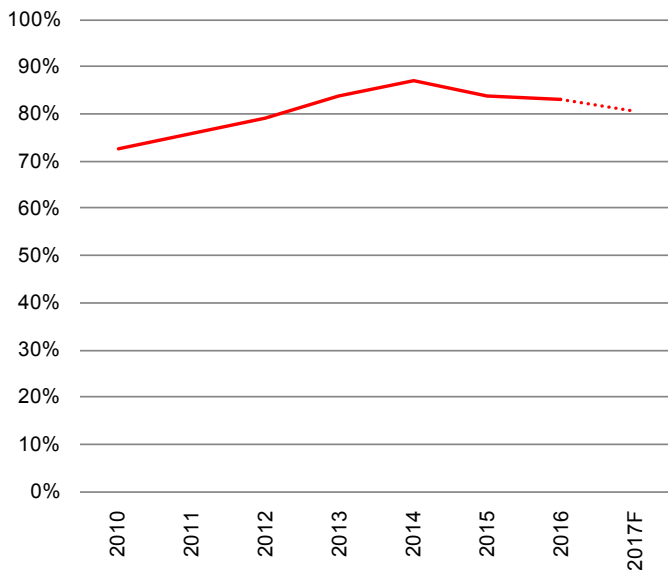
LEGEND		
1. Tunjungan Plaza VI	6. The Groove	11. Pakuwon Mall
2. Praxis	7. Puri City Shopping Mall	12. The Central Gunawangsa Tidar
3. Grand Dharmahusada	8. Ciputra World Surabaya 2	13. Equator
4. Galaxy Mall 3	9. Puncak CBD	
5. The Frontage	10. Grand Sungkono Lagoon	

Source: Colliers International Indonesia - Research

Performance

Demand and Occupancy

Occupancy Rates



Source: Colliers International Indonesia - Research

Despite showing improving HoH in 2016, occupancy was recorded lower than that of the previous year. Newly operating shopping centres caused occupancy to drop as of H1 2016. Occupancy climbed slightly and stood at 83.2% as of H2 2016, thanks to the performance of a newly operating Tunjungan Plaza V in Central Surabaya. This shopping centre also helped bring the average occupancy at 92% and increasing 4% YoY in Central Surabaya.

Based on area, Central Surabaya had the highest occupancy rate, whilst other areas in Surabaya were recorded between 70% and 85% in 2016. Conversely, since it announced that it will be refurbished in the previous year, Hi-Tech Mall maintained larger vacant spaces and caused the average occupancy down significantly in North Surabaya.

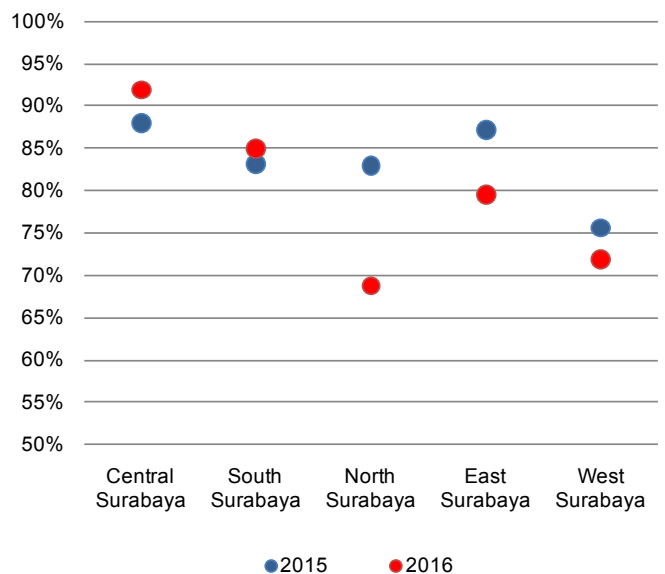
Nevertheless, Surabaya is expected to become the shopping destination particularly for people from eastern

Indonesia. There is a forecasted increase in purchasing power and in the number of visitors, which will likely lure more branded tenants to open in Surabaya, as a result of the limited available spaces at upper class shopping centres in Surabaya. The number of visitors based on the number of cars at upper class shopping centres was currently recorded at 3,000 and up to 6,000 cars, and even up to 10,000 cars during the weekend. This could attract landlords or developers to transform tenancy mix particularly at upper class shopping centres in Surabaya.

Some new tenants currently opened, the latest of which are in the Farmers Market that opened in Grand City. In addition to this supermarket, most of the newly opened tenants came from fashion and food and beverages.

Surabaya will see larger additional supply and it is forecasted to bring a large impact in occupancy in 2017. Nevertheless, future shopping centres have already secured committed tenants to boost projected occupancy to improve from 2016.

Occupancy Rates in Different Region of Surabaya



Source: Colliers International Indonesia - Research

Newly Opening Tenants in 2016

SHOPPING CENTRE	NAME OF TENANTS
Tunjungan Plaza	Omega Boutique, Stadium, BCBGMAXAZRIA, Tory Burch, Cotton On, DKNY, Rotelli, Lacoste, Burger King
Ciputra World Surabaya	Et Cetera, Salt n Pepper, Victoria's Secret, Manzone, Yoshinoya, Justice
Grand City	Farmers Market
Marvell City	Factory Store, CGV Blitz, Electronic Solution, Fun World, Lotte Hypermarket
City of Tomorrow	Maxx Coffee
Galaxy Mall	Hanji Restaurant, Sumoboo, Bayu Buana, Footgear, My Hola Batik, Tous Le Jours

Source: Colliers International Indonesia - Research

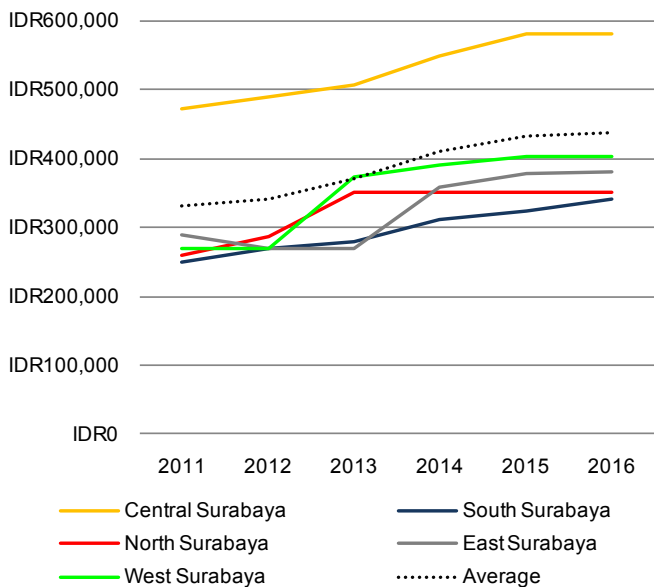
Commitment Tenant at Existing and Future Shopping Centre in Surabaya

SHOPPING CENTRE	NAME OF TENANTS
Pakuwon Mall	Lotte Hypermarket, ZARA, SOGO, Bershka, Pull & Bear, Lacoste, Mango, Pandora, Guess, Burger King, Pizza Hut
Tunjungan Plaza VI	H&M, Uniqlo, Omega, Forever 21, Marks and Spencer
The Central Gunawangsa	Lion Superindo, My Gym, Nang Family Karaoke
Lenmarc	Transmart Carrefour, Trans Studio Mini
Praxis	Celebrity Fitness
Mall at Grand Sungkono Lagoon	Cinemaxx
Mall at Grand Dharmahusada	Cinemaxx

Source: Colliers International Indonesia - Research

Rental Rates

Average Asking Base Rental Rates in Different Regions



Source: Colliers International Indonesia - Research

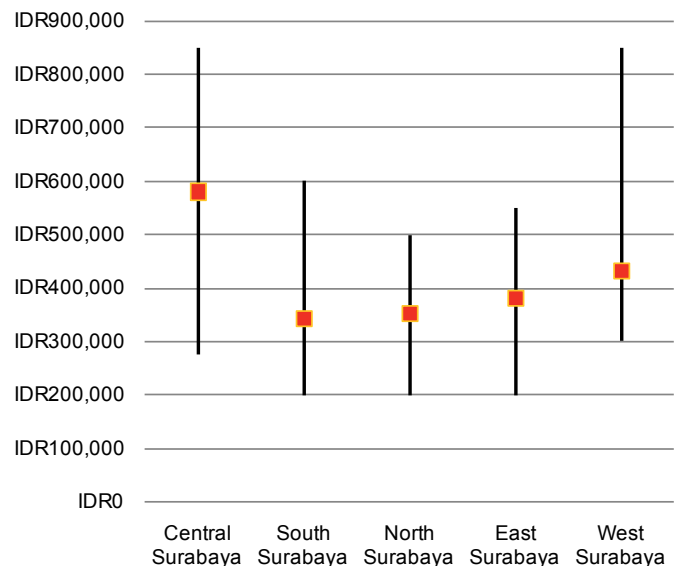
An uncertain economy will probably dampen consumer spending. As a result, landlords currently preferred to secure occupancy performance than increase asking rent. The average asking rents for all shopping centre classes was currently recorded at IDR438,178/sq m/month as of H2 2016.

Retail sales are expected to improve by the peak year-end holiday and festive sales season. However, landlords will remain flexible and realistic during rental negotiations. This could lead to a further softening of shopping mall rents in 2017.

Based on mall grade, upper class shopping centres still bring significant impact on average asking rents in Surabaya. These upper class shopping centres maintained their asking rents relatively to stabilise between IDR400,000 and IDR850,000/sq m/month. Other upper class shopping centres are also expected to begin operation in 2017. The average asking rent is forecasted to increase despite marginally in 2017.

Based on area, Central Surabaya maintained the highest asking rents in Surabaya. Most shopping centres offer the rents above market rates. However, the average asking rents were recorded relatively flat YoY. Asking rents were also recorded to stabilise at other areas, except South Surabaya. A shopping centre that stopped operation helped the average rent to grow 5% YoY in South Surabaya.

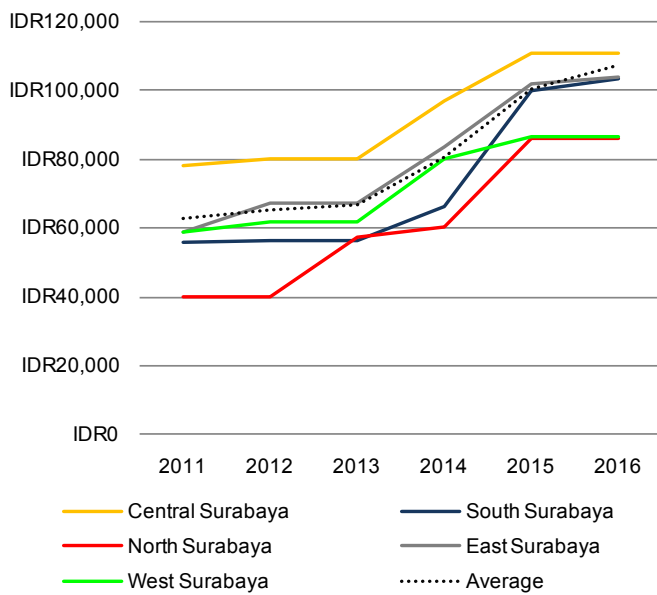
The Range of Asking Rent in Different Regions



Source: Colliers International Indonesia - Research

Service Charge

Average Service Charge in Different Regions

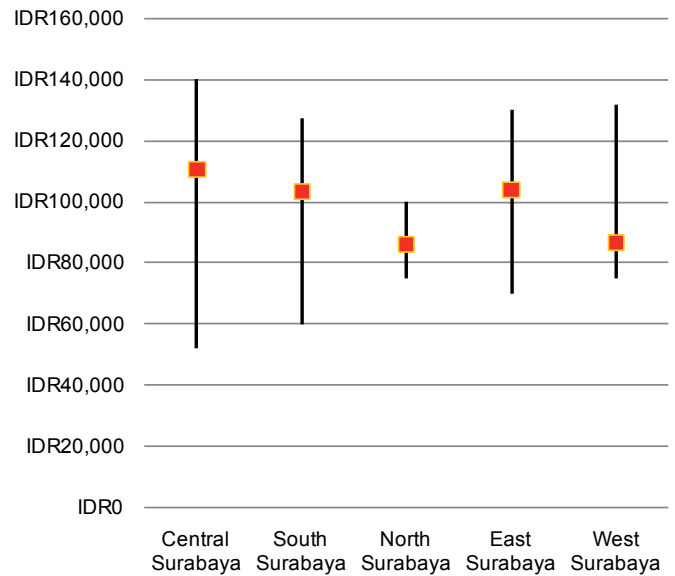


Source: Colliers International Indonesia - Research

Service charge climbed significantly in H2 2016 after moving very moderately from 2015 to H1 2016. Some shopping centres raised their service charges between IDR10,000 and IDR30,000 from the previous semester. These shopping centres increased the average service charge to IDR106,556/sq m/month as of H2 2016, which climbed 6% YoY.

The other existing shopping centres will potentially adjust and bring projected service charge to increase in 2017. A projected increase in service charge will likely be contributed by future shopping centres in 2017.

The Range of Service Charge in Different Regions



Source: Colliers International Indonesia - Research

Concluding Thought

Surabaya is expected to become a shopping destination. Supported from landlords to bring in newer and bolder retail concepts.

Big players / developers will still control the retail market in Surabaya in terms of supply and tenancy mix. Branded retailers are mainly interested to open their stores in shopping centre developed by well-known developers.

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.