

A modest supply projection in 2018 will help lift retail market performance

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Retail market began to straighten up in Surabaya. Despite the declining occupancy rate, newly opened shopping centres provided a new shopping atmosphere in Surabaya, from mall concept to tenancy mix. As a result, other existing malls began to evolve and rejuvenate their malls as well.

Forecast at a glance



Demand

In the future, retailers who occupy a space between 200 and 300 sq m are expected to continue. These days, a growing trend is that malls are becoming places for gathering, especially for young people, popularising the concept of a lifestyle mall and recreation. Food and beverage retailers are expected to still become attractive for visitors to Surabaya. For large spaces, Transmart Group also began to expand to Surabaya, but for the meantime they prefer to be free standing.



Supply

Additional supplies in 2018-2020 will be quite considerable in number. Over the next three years, we only recorded four future shopping centres to bring around 103,000 new retail spaces. The next new shopping centre will be The Central Dharmahusada, which will start operating in 2018.



Vacancy rate

A modest amount of future supply and high pre-committed take-up at newly operating malls will help push overall occupancy performance to reach 85% in 2018.

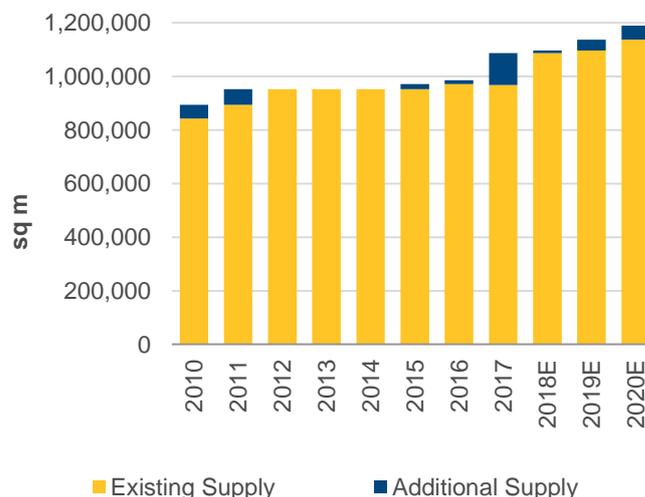


Rent

In the current market condition, there is no room for landlords to capitalise on adjusting asking rents higher. A moderate estimation of 1-2% rental increase in 2018 is primarily due to calculation adjustments that were very much influenced by middle-upper class malls in Surabaya. Despite securing high occupancy rates, we predict middle-upper class shopping centres to prefer to maintain and boost their occupancy rates than increase base rents in 2018. Despite experience such increase, we estimate a very thin rental growth in 2018, around 1-1.5% YOY.

Supply

Cumulative Retail Supply in Surabaya



Source: Colliers International Indonesia - Research

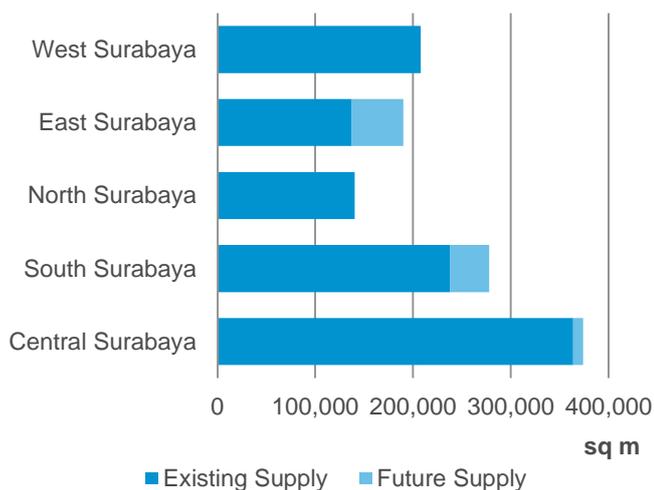
The opening of two shopping centres, namely Pakuwon Indah Mall and Tunjungan Plaza 6, both under the management of Pakuwon Jati, marked the Surabaya retail market in the second semester of 2017. These two malls contributed 119,495 sq m of new retail space, and thus bringing the total retail space in Surabaya to exceed

1 million sq m by the end of 2017, showing an increase of 12.3% YOY.

In 2017, after recording a historic high in annual supply of almost 120,000 sq m, supply will grow very modestly in 2018-2020. Colliers predicts only around 103,000 sq m additional retail spaces to enter the Surabaya market in the next three years. Almost 80% of the future retail spaces in 2018-2020 will be contributed by shopping centres within One Galaxy and Ciputra World Surabaya.

State-owned developer, PT. PP Properti is now an active player in developing shopping centre in Surabaya with two upcoming lifestyle malls built within their mixed-use projects of Grand Dharmahusada and Sungkono Lagoon. Based on construction progress, these two malls will meet completion consecutively in 2020 and 2021.

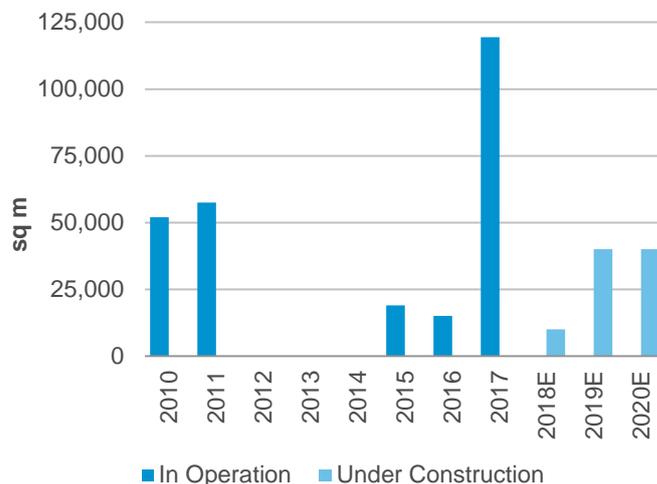
Distribution of Existing and Future Retail Space in Surabaya



Source: Colliers International

The rapid increase in the need to have modern urban society activities currently encourages the typology of city development to be more multifunctional. This trend evolves with the many community activities such as jobs, shopping and recreation. This concept is expected to tidy up the congestion and organise the city chaos.

Annual Retail Supply in Surabaya



As one of those components, the existence of new shopping centres in the future is predicted to increase in line with the integrated development in Surabaya.

With the congestion of the city centre, the development of shopping centres in the suburbs can also be an attractive option for developers by offering a mall concept not only for shopping but also recreation. Of course, this is supported by the development of infrastructure such as major roads and outer ring roads to support the distribution of visitors both from inside and outside Surabaya.

NEW SUPPLY PIPELINE						
SHOPPING CENTER	LOCATION	REGION	DEVELOPER	NLA (SQ M)	MARKETING SCHEME	DEVELOPMENT STATUS
2018						
The Central	Kertajaya Indah Timur	Central Surabaya	Gunawangsa	10,000	For Lease	Under Construction
2019						
One Galaxy Mall	Dharmahusada Indah	East Surabaya	Puri Galaxy (Sinar Galaxy Group)	40,000	For Lease	Under Construction
2020						
Ciputra World Surabaya Mall 2	Mayjen Sungkono	South Surabaya	Ciputra Group	40,000	For Lease	Under Construction
Lagoon Avenue Dharmahusada	Dharmahusada	East Surabaya	PP Properti	12,545	For Lease	Under Construction

Source: Colliers International Indonesia - Research

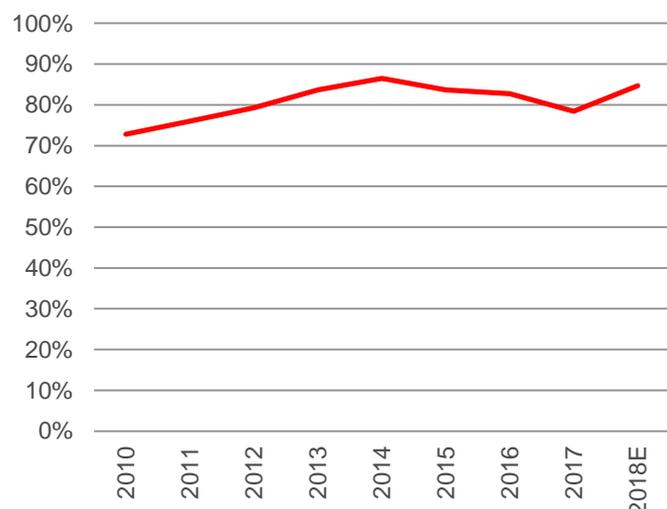
The government of Surabaya supports such developments by transforming the surrounding road areas into trading and commercial zones in accordance with the Surabaya city planning.

Performance

Demand and Occupancy

The overall occupancy rate dropped 4.2% YOY to 78.4%, mainly highlighted by the closure of some stores at two middle upper class shopping centres in Surabaya. Over the last five years, the amount of annual space absorption showed a decreasing trend from 2013 to 2016. Thanks to the two newly operating shopping centres that opened with already good take-up, occupancy improved 1.5% compared to the first semester of 2017.

Average Occupancy Rate



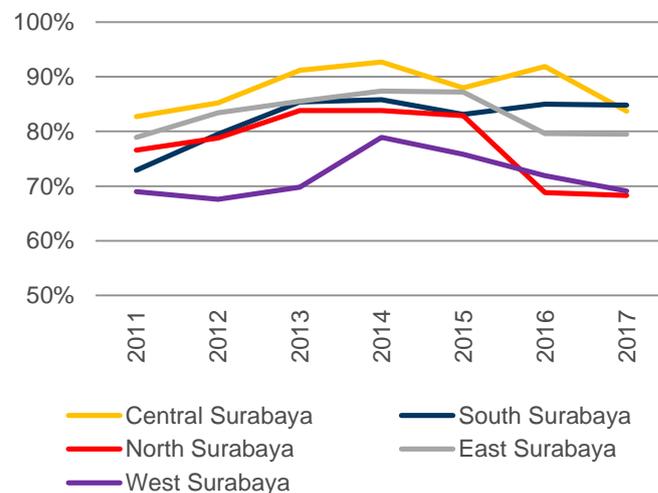
Source: Colliers International Indonesia - Research

Given a reasonable supply projection in 2018, we expect vacancy rate to drop. Furthermore, most committed tenants at Tunjungan Plaza 6 and Pakuwon Mall will open immediately as they are progressing in fitting-out their stores. The vacated space at the above-mentioned middle upper class mall will likely be replaced by newer tenants and thus, we think occupancy may jump to 84-85% in 2018.

In 2017, some new retailers indicated to further penetrate with more stores in Surabaya. After occupying a space at Pakuwon Mall, H&M opened its second store at Tunjungan Plaza 6. Miniso, the Japanese fashion designer brand for household and consumer goods including cosmetics, stationery, toys and kitchenware, also landed for the first time in Surabaya in 2017. Consecutively, Miniso opened at Grand City, Ciputra World Surabaya Mall and recently at Pakuwon Mall.

From the F&B line, brands such as ChicKing Group of Restaurants from Dubai, Uni Emirat Arab, launched their first store at Surabaya Plaza.

Average Occupancy Rates in Different Region of Surabaya

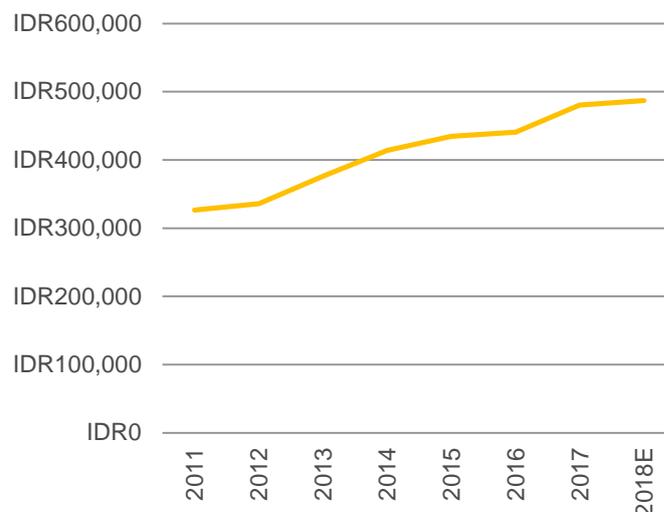


Source: Colliers International Indonesia - Research

Asking Rental Rates

The two newly operating malls are upper class shopping establishments that offer higher-than-average market rents and thus, brought the overall asking rents up by 9% YOY to IDR480,542/sq m/month. Today, most of shopping centres in Surabaya ask rental tariff starting at IDR300,000 to IDR425,000/sq m/month. Only the top five shopping centres offer rents above market rate, around IDR500,000 up to IDR700,000/sq m/month.

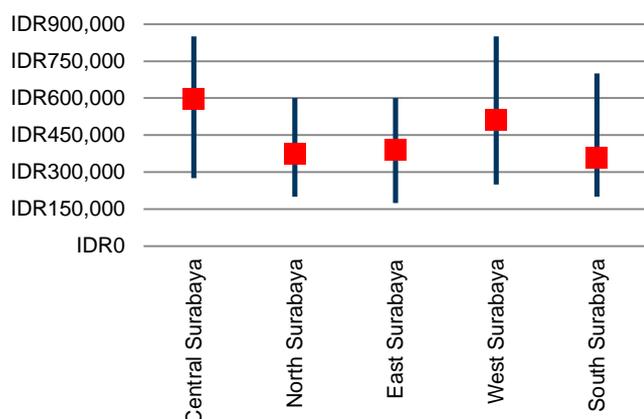
Average Rental Rates in Different Regions



Source: Colliers International Indonesia - Research

We estimate asking rents to increase moderately in 2018, between 1% and 2%. A future shopping centre that will open in 2018 is expected to offer the asking base rental relatively lower than market prices. In addition, we project the top five shopping centres to maintain their asking base rents and keep them relatively stable in 2018. Nevertheless, some middle to lower classes shopping centres still recorded the same rental rates within the last three years. These shopping centres possibility adjust the base rents particularly for the available spaces at primary areas.

Range and Average Asking Rents in Different Regions



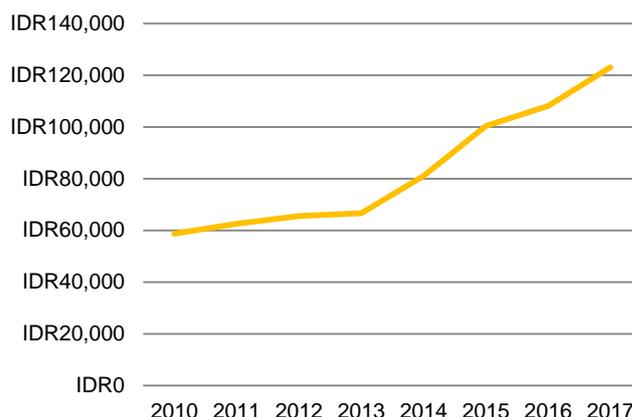
Source: Colliers International Indonesia - Research

Service Charges

There are two main reasons why service costs increased during the semester. Several shopping centres adjusted the tariff up by IDR10,000 to IDR30,000/ sq m/month. Besides, two newly operating shopping centres charge higher maintenance tariff than the average market rate. This resulted in a 13.9% increase YOY, which brought the average service charges in Surabaya to register at IDR123,085/sq m/month.

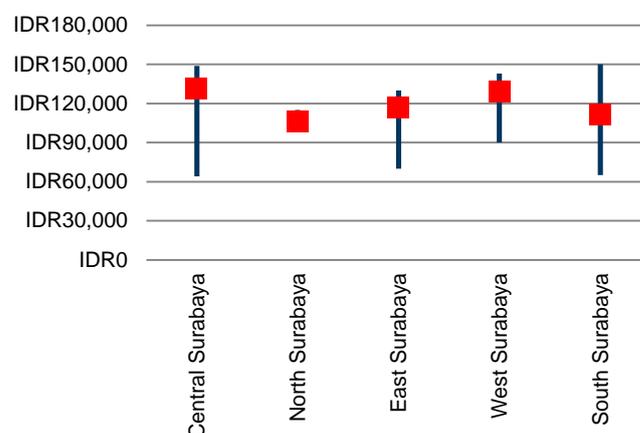
The determinant factor that might impact the service charge cost in 2018 will be the plan of the city government of Surabaya to increase regional minimum wages by 8.7%. Other determining factors, including electricity tariff, are expected to be stable next year and thus, service charges increase will only be in line with the change in the regional minimum wages.

Average Service Charges



Source: Colliers International Indonesia - Research

Range of Service Charges in Different Regions



Source: Colliers International Indonesia - Research

Concluding Thought

The decrease in purchasing power is also recognised by some major retailers in Surabaya (particularly Matahari). This was affected not only by online retail growth, but also more due to newly opening tenants that began operation and put more competition to existing retailers.

Nevertheless, Surabaya's retail market still remains prospect in 2018. Trends in purchasing power remain high in conventional retailers rather than online. The existence of online retail will help bring convenience for shoppers because everything is on hand to get information about any merchandise.

Economic growth is projected to be relatively stable, and might even increase. The increase in economy can be an indicator of the increasing level of consumption. Of course, it is also a necessary role of the government to stabilise other expenses, including electricity costs and other basic living expenses. With so, more visitors are expected go to the malls for shopping.

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