

JAKARTA | OFFICE

Office Sector

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The office market has gone through a gloomy period over the last three years, as occupancy continued to decrease. In the end, landlords were pressured to drop their asking rental rates to below IDR300,000/sq m/month.

Forecast at a glance



Supply

The cumulative supply is expected to reach 6.22 million sq m in the CBD in 2017, a 13.3% increase YoY. Nine office buildings will meet completion and bring around 620,000 sq m of new additional office spaces in the CBD in the remaining months of 2017.

The cumulative supply is expected to reach 3.20 million sq m outside the CBD in 2017, which is a 7% increase. By the end of 2017, a total of 170,000 sq m of new office spaces will be contributed by eight office buildings located outside the CBD.



Occupancy

The CBD office market anticipates a further decline in occupancy to below 80% by the end of 2017. A large projected additional supply will put more pressure on occupancy performance, although demand is expected to improve. Occupancy is also expected to drop outside the CBD.



Rent

Rents will stabilise by the end of 2017 after decreasing around 6% in 2016. Landlords will opt to restrain base rental rate from going up amidst the very tough tenant market situation.

Supply

Office Spaces Offered For Lease

CBD

Newly Operating Office Buildings in CBD

OFFICE BUILDING PROJECT NAME	LOCATION	SGA (SQ M)	MARKETING SCHEME
Satrio Tower	Satrio	31,604	For Lease
Menara Pertiwi	Mega Kuningan	41,456	For Sale
Convergence	Rasuna Said	36,367	For Lease & Sale

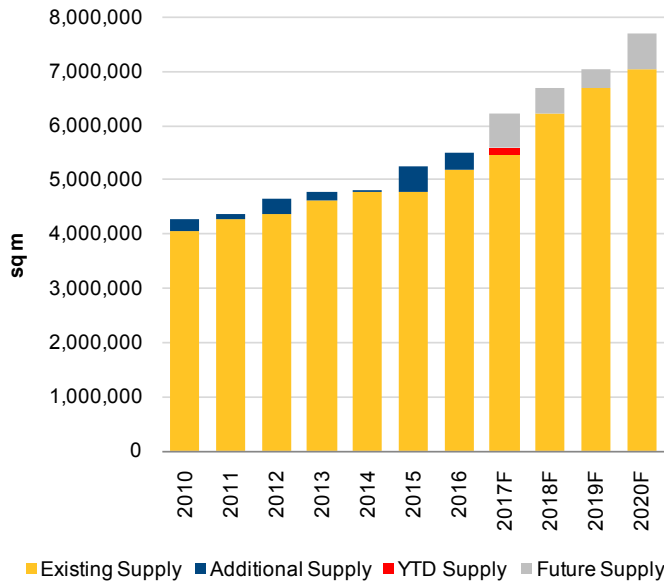
Source: Colliers International Indonesia - Research

Three office buildings in the CBD officially began operation and brought around 110,000 sq m of new office spaces in Q1 2017, bringing the cumulative supply to 5.59 million sq m. A total of 12 office buildings (including the above-mentioned three buildings) will start operation and bring around 730,000 sq m of additional office spaces in 2017, which is double than in the previous year. These future office buildings are confident in meeting their completion in 2017, based on the current construction progress.

Apart from the office building pipeline announced for completion in 2017-2020 in the CBD, there are no further additional future buildings to be launched. Developers have become aware of the oversupply situation and avoid adding new projects during that critical period. Annual supply projection during that period will be dynamic, depending on the construction progress. As indicated before, total projected office spaces in 2018 will be lower than those in 2017, mainly because several office buildings that are expected to meet completion in 2018 are currently progressing slowly in construction. Furthermore, these upcoming office buildings will be rescheduled for completion in the years ahead. We are also monitoring the construction of some office buildings that will bring huge additional office spaces, such as Icon Tower, Tower Two at The City Centre, Chitaland, Millenium Centennial Tower and Thamrin Nine. The completion of these office buildings will significantly impact the supply projection in 2019-2020.

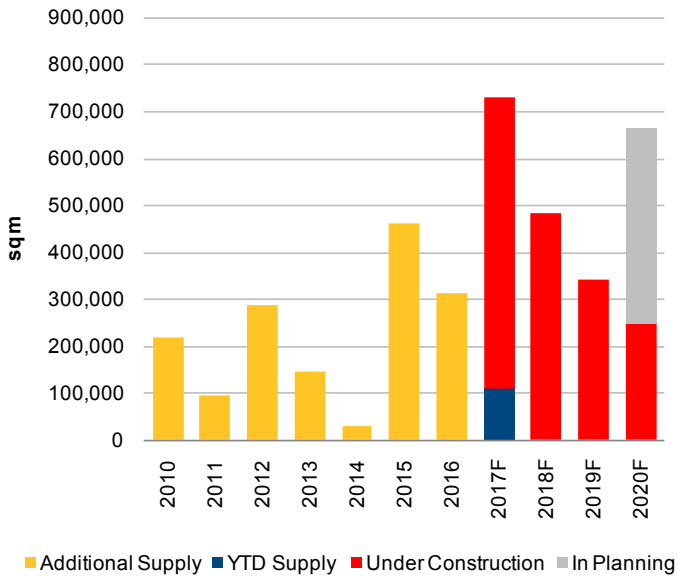
One existing office building on Jalan Rasuna Said will stop operating and will be demolished by mid-2017. The vacant land-to-be will be redeveloped into a new office building, which is expected to meet completion in 2020.

CBD Office Cumulative Supply



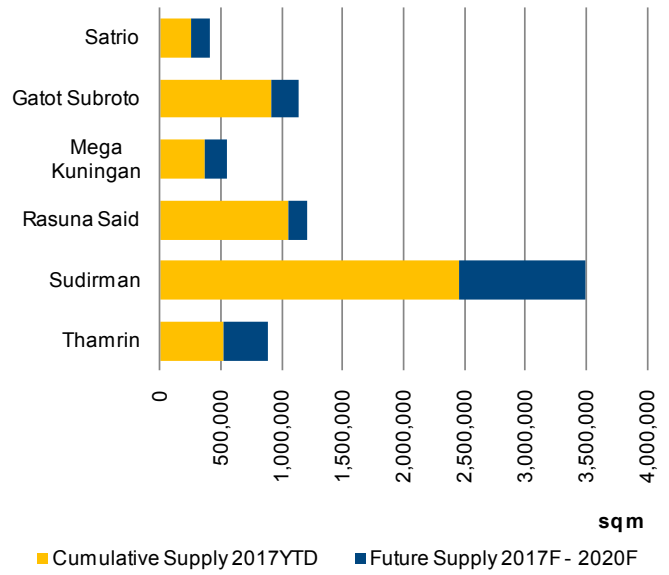
Source: Colliers International Indonesia - Research

CBD Office Annual Supply



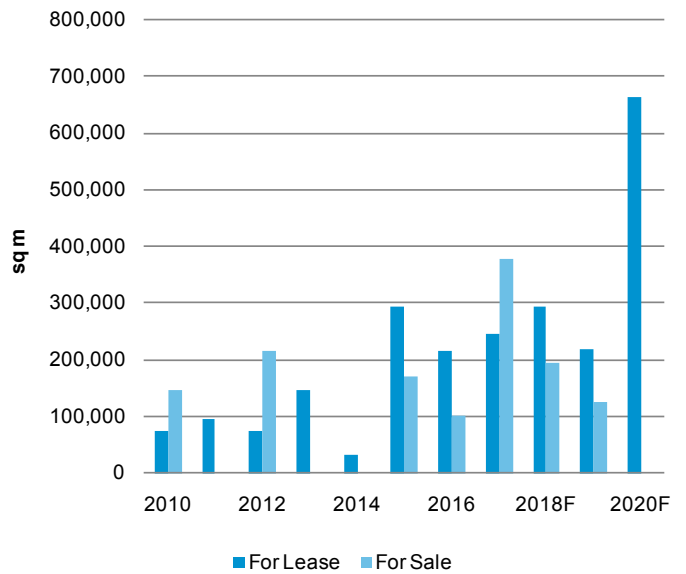
Source: Colliers International Indonesia - Research

CBD Office Cumulative Supply based on Area



Source: Colliers International Indonesia - Research

CBD Office Annual Supply based on Marketing Scheme



Source: Colliers International Indonesia - Research

Outside the CBD

Newly Operating Office Buildings in Outside the CBD			
OFFICE BUILDING PROJECT NAME	LOCATION	SGA (SQ M)	MARKETING SCHEME
Puri Indah Financial Tower	Kembangan Utara	38,500	For Lease & Sale

Source: Colliers International Indonesia - Research

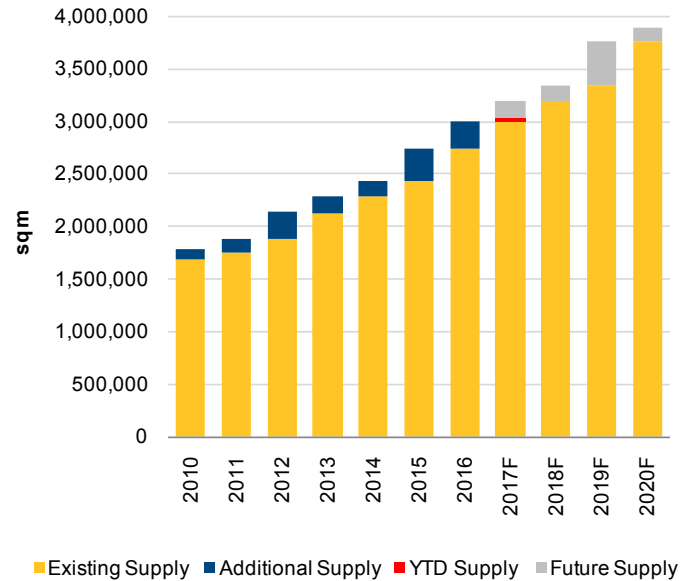
Puri Indah Financial Tower began operation and brought the cumulative supply outside the CBD to 3.03 million sq m as of Q1 2017. In addition to Puri Indah Financial Tower, eight other office buildings outside the CBD will be completed and bring around 160,000 sq m of additional office spaces in the remainder of 2017. All of these office buildings outside the CBD will raise the cumulative supply to 6.6% YoY by the end of 2017.

Furthermore, the projected office supply will relatively be stable outside the CBD, at around 230,000 sq m per annum between 2018 and 2020. Most of these future office buildings are currently under construction, including The Unity Square that is owned by Pakuwon. The Unity Square will become the third office tower within a mixed-use development in Kota Kasablanka (South Jakarta) and will become the largest future office building in 2017-2020 outside the CBD. In addition, SOHO Pancoran and One Belpark Office will contribute additional office spaces by the end of 2020 in South Jakarta.

Based on area, the total amount of future office spaces in South Jakarta (excluding TB Simatupang) will be the third-largest outside the CBD. Central Jakarta and West Jakarta will contribute the largest future supply outside the CBD from 2017 to 2020. Most of the future supplies in Central Jakarta will be concentrated in Kemayoran, whilst Kembangan is expected to become a growing commercial area in West Jakarta. Except Ciputra International, we recorded two office buildings that are ready to open in 2017. Overall, Central Jakarta and West Jakarta will contribute around 60% of the total number of projected supply outside the CBD between 2017 and 2020.

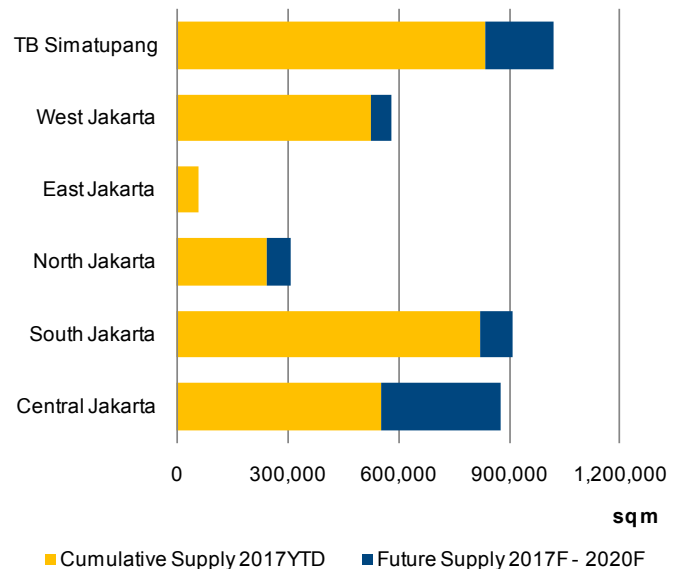
After saturating the market with significant amount of office spaces in 2015, TB Simatupang area will see limited future supply. Without new additional spaces forthcoming, the total supply in TB Simatupang remained at 957,328 sq m as of Q1 2017. We recorded only five office buildings that are expected to bring around 145,000 sq m of additional office spaces by the end of 2020 in TB Simatupang. Arkadia Tower G has recently begun construction in TB Simatupang, as well as three other office buildings, including Zuria, a small office building that will contribute additional spaces of less than 7,000 sq m in 2017.

Outside the CBD Office Cumulative Supply



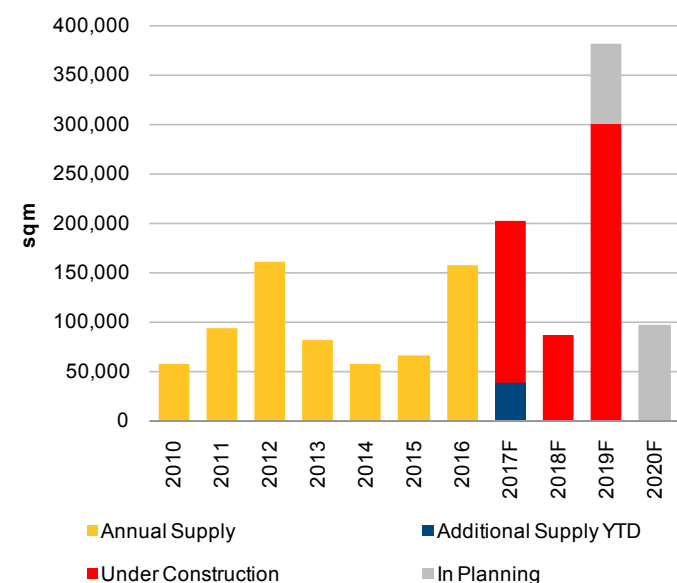
Source: Colliers International Indonesia - Research

Outside the CBD Office Cumulative Supply Based on Area



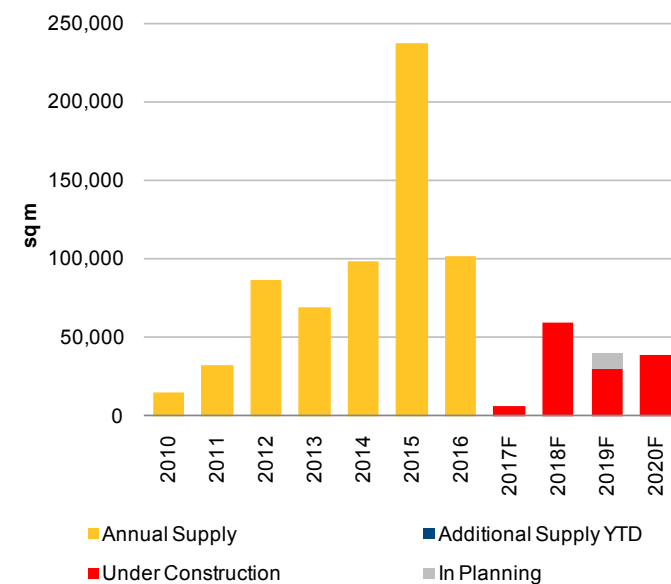
Source: Colliers International Indonesia - Research

Outside the CBD Excluding TB Simatupang Annual Supply



Source: Colliers International Indonesia - Research

TB Simatupang Annual Supply



Source: Colliers International Indonesia - Research

New Supply Pipeline					
PROJECTED COMPLETION	OFFICE BUILDING PROJECTS NAME	LOCATION	SGA* (SQ M)	MARKETING SCHEME	STATUS DEVELOPMENT
CBD					
2017	Telkom Landmark Tower II	Gatot Subroto	65,000	For Lease	Under Construction
2017	Menara Palma 2	Rasuna Said	50,000	For Lease	Under Construction
2017	Ciputra World Jakarta 2	Satrio	70,000	For Lease & Sale	Under Construction
2017	The Tower	Gatot Subroto	56,492	For Sale	Under Construction
2017	PCPD Tower	Sudirman	90,500	For Lease	Under Construction
2017	Prosperity Tower (within District 8)	Sudirman	71,545	For Sale	Under Construction
2017	Treasury Tower (within District 8)	Sudirman	139,000	For Sale	Under Construction
2017	Revenue Tower (within District 8)	Sudirman	40,000	For Lease	Under Construction
2017	Sopo Del Tower B	Mega Kuningan	39,200	For Lease	Under Construction
2018	Mangkuluhur Tower	Gatot Subroto	53,000	For Lease & Sale	Under Construction
2018	Lippo Thamrin Office Tower	Thamrin	16,500	For Sale	Under Construction
2018	Sequis Tower	Sudirman	78,000	For Lease	Under Construction
2018	Sopo Del Tower A	Mega Kuningan	64,000	For Lease	Under Construction
2018	Sudirman 7.8	Sudirman	52,000	For Sale	Under Construction
2018	World Capital Tower	Mega Kuningan	72,000	For Lease & Sale	Under Construction
2018	World Trade Center III	Sudirman	70,000	For Lease	Under Construction
2018	Astra Tower	Sudirman	80,000	For Lease	Under Construction
2019	Tower Two at The City Center	Sudirman	101,260	For Lease & Sale	Under Construction
2019	T Tower	Gatot Subroto	24,000	For Lease & Sale	Under Construction
2019	Thamrin Nine	Thamrin	97,500	For Lease	Under Construction
2019	Millenium Centennial Tower	Sudirman	120,000	For Lease	Under Construction
2020	Icon Tower	Sudirman	72,500	For Lease	Under Construction
2020	Chitaland	Satrio	90,000	For Lease	Under Construction
2020	Indonesia Satu North Tower	Thamrin	130,000	For Lease	Under Construction
2020	Indonesia Satu South Tower	Thamrin	120,000	For Lease	Under Construction

continued

PROJECTED COMPLETION	OFFICE BUILDING PROJECTS NAME	LOCATION	SGA* (SQ M)	MARKETING SCHEME	STATUS DEVELOPMENT
<i>continuation</i>					
2020	Surya Semesta Internusa (SSI) Tower	Rasuna Said	80,000	For Lease	In Planning
2020	Gayanti City	Gatot Subroto	25,000	For Lease	In Planning
OUTSIDE THE CBD (EXCLUDING TB SIMATUPANG)					
2017	Gallery West	Kebun Jeruk	29,000	For Sale	Under Construction
2017	Tamansari Parama	Wahid Hasyim	10,800	For Sale	Under Construction
2017	One Belpark Office	Pondok Labu	17,800	For Lease	Under Construction
2017	St Moritz Office Tower	Puri Indah	19,500	For Sale	Under Construction
2017	BKP Office Tower	Sunter	16,000	For Lease	Under Construction
2017	Hermina Office Building	Kemayoran	20,000	For Sale	Under Construction
2017	Puri Matahari	Puri Kembangan Utara	28,925	For Lease	Under Construction
2018	SOHO Pancoran	Pancoran	30,000	For Sale	Under Construction
2018	One Tower	Kemayoran	21,400	For Sale	Under Construction
2018	Ciputra International Puri 1 Phase 1	Puri Kembangan	15,000	For Lease	Under Construction
2018	Ciputra International Puri 2 Phase 1	Puri Kembangan	20,000	For Lease	Under Construction
2019	The Unity Square	Casablanca	80,000	For Lease	Under Construction
2019	MNC Tower II	Kebun Sirih	60,000	For Lease	Under Construction
2019	Agung Sedayu Office Tower	Pantai Indah Kapuk	50,000	For Lease	Under Construction
2019	Ciputra Business District Kemayoran Tower 1	Kemayoran	40,000	For Sale	Under Construction
2019	Ciputra Business District Kemayoran Tower 2	Kemayoran	40,000	For Lease	Under Construction
2019	Ciputra International Puri 3 Phase 1	Puri Kembangan	30,000	For Lease	Under Construction
2019	Ciputra International Puri Phase 2	Puri Kembangan	15,000	For Lease	In Planning
2019	Ciputra International Puri 1 Phase 3	Puri Kembangan	15,000	For Lease	In Planning
2019	Ciputra Internatinal Puri 2 Phase 3	Puri Kembangan	15,000	For Lease	In Planning
2019	Jakarta Box Tower	Kebun Sirih	36,000	For Lease	In Planning
2020	Menara Jakarta	Kemayoran	70,000	For Sale	In Planning
2020	Lippo Tower Holland Village	Cempaka Putih	27,000	For Sale	In Planning
TB SIMATUPANG					
2017	Zuria		6,584	For Lease	Under Construction
2018	The Sima		60,000	For Lease	Under Construction
2019	Arkadia Tower G		30,000	For Lease	Under Construction
2019	Beltway Office Park Tower 4		10,000	For Lease	In Planning
2020	The Manhattan Square Tower 2		39,375	For Lease & Sale	Under Construction

Source: Colliers International Indonesia - Research

The Occupancy

CBD

The average occupancy rates continued to decline moderately QoQ and were recorded at 83.8% as of Q1 2017. Whilst Indonesia's economy is forecasted to improve, occupancy rate is expected to register around 78-79% by the end of 2017, with total projected office spaces of around 620,000 sq m in the remainder of 2017.

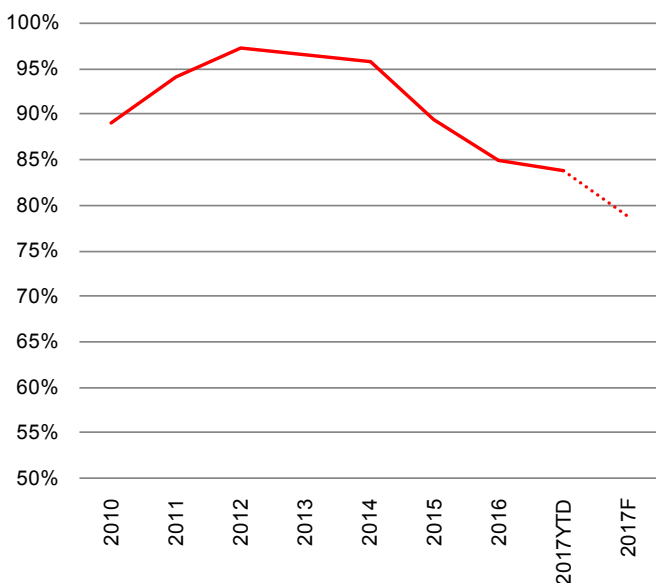
The overall occupancy rate dropped from 85.0% to 83.8% QoQ, mainly contributed by Grade A buildings that dominate the overall office space stock in the CBD. As Grade A office buildings constitute about 45.2% of the total office spaces in the CBD, any dynamic change in this building category will somewhat modify the overall condition of the office market.

Regarding the tenant market, every new building will find a challenging time in securing tenants. The pre-committed absorption of office buildings for lease in 2017 only reached 25.5%, whilst the committed absorption of office buildings in 2016 was recorded at only 33.0%.

Occupancy changes in the CBD (%)			
OFFICE BUILDING GRADE	Q1 2016	Q4 2016	Q1 2017
Premium	89.4	76.9	78.9
Grade A	84.7	79.5	79.3
Grade B	93.1	91.6	90.6
Grade C	90.8	88.0	88.7
Overall	88.6	85.0	83.8

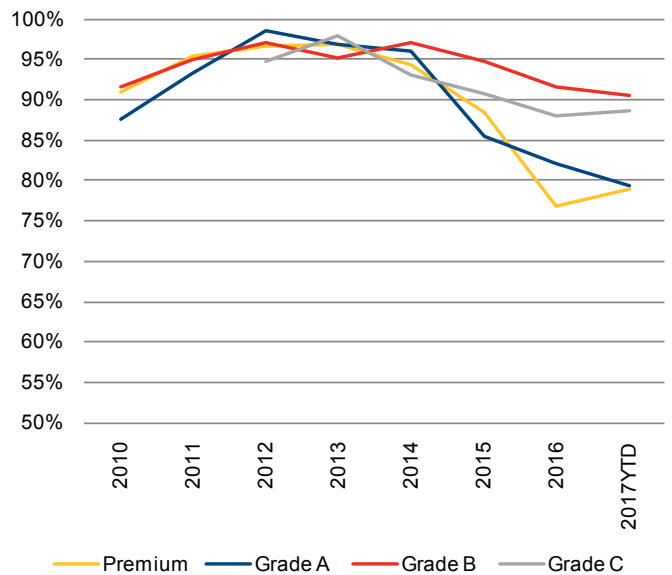
Source: Colliers International Indonesia - Research

Average Occupancy Rates in the CBD



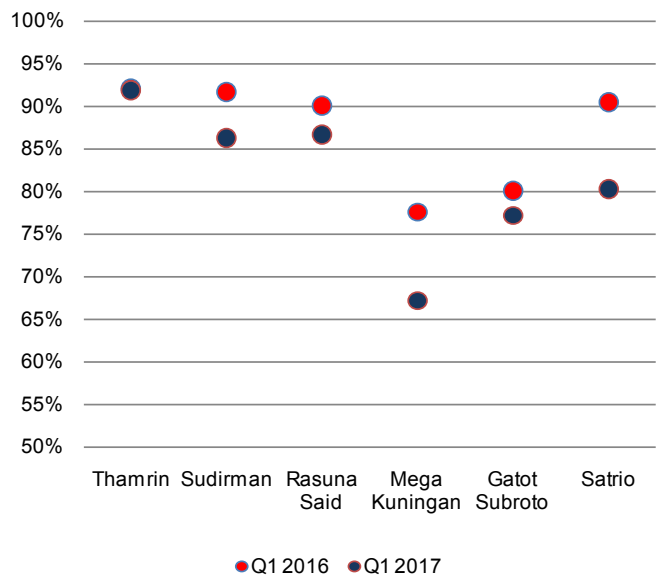
Source: Colliers International Indonesia - Research

Averages Occupancy in the CBD based on Building Grade



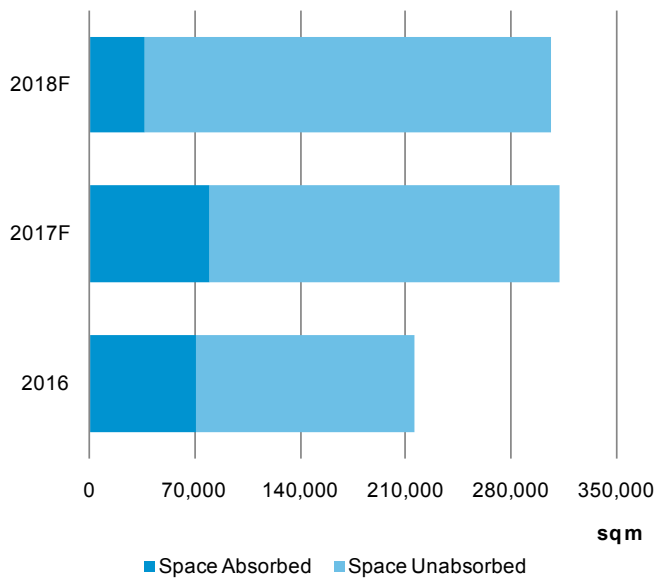
Source: Colliers International Indonesia - Research

YoY Occupancy Performance in the CBD



Source: Colliers International Indonesia - Research

Pre-Committed Absorption at Office Buildings for Lease in the CBD in 2016 - 2018



Source: Colliers International Indonesia - Research

Outside the CBD

Despite moderately, occupancy continued to decline QoQ in outside the CBD. Some office buildings that began operation in 2015 still register low occupancy rates, which contributed to an overall occupancy of 81.9% outside the CBD. The rest of 2017 will be tough for the office market outside the CBD, particularly given a substantial amount of upcoming office supply.

The absence of new office buildings this quarter helped lift the average occupancy in TB Simatupang. The average occupancy was recorded at 74.1%, and this upward trend may continue given the limited future supply in TB Simatupang.

Other areas outside the CBD (excluding TB Simatupang) registered occupancy of above 77%. Meanwhile, non-favourite office locations such as East Jakarta may capture high occupancy since this area has seen no new office supplies for almost 20 years. High occupancy was also recorded in Central Jakarta, where several old office buildings are fully occupied, benefiting from their low rental tariff. North Jakarta's occupancy was below 80% mainly due to the poor performance of newly operating office buildings, which provided large office spaces that began operation in 2016.

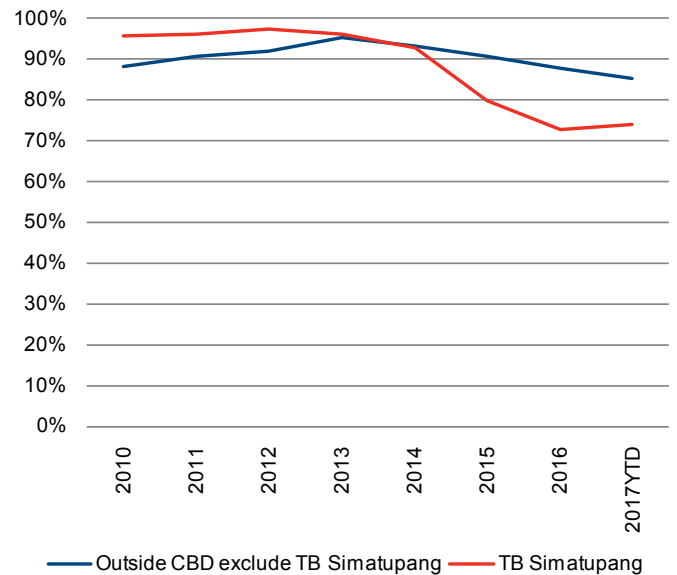
Office buildings operating in 2017 were only absorbed at around 40%, whilst those that began operation in 2016 were absorbed 50% as of Q1 2017.

Occupancy changes in Outside the CBD (%)

AREA	Q1 2016	Q4 2016	Q1 2017
Outside CBD excluding TB Simatupang	90.7	87.9	85.4
TB Simatupang	80.9	72.5	74.1

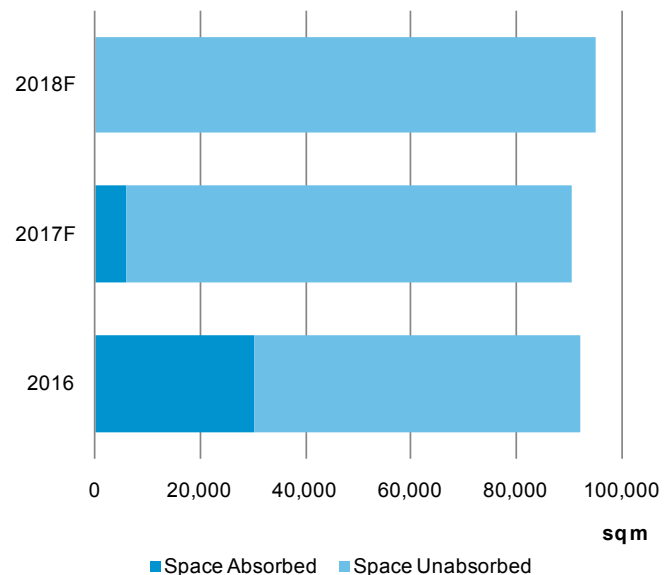
Source: Colliers International Indonesia - Research

Average Occupancy Rates in Outside the CBD



Source: Colliers International Indonesia - Research

Pre-Committed Absorption at Office Buildings for Lease in Outside the CBD in 2016 - 2018



Source: Colliers International Indonesia - Research

Asking Rents

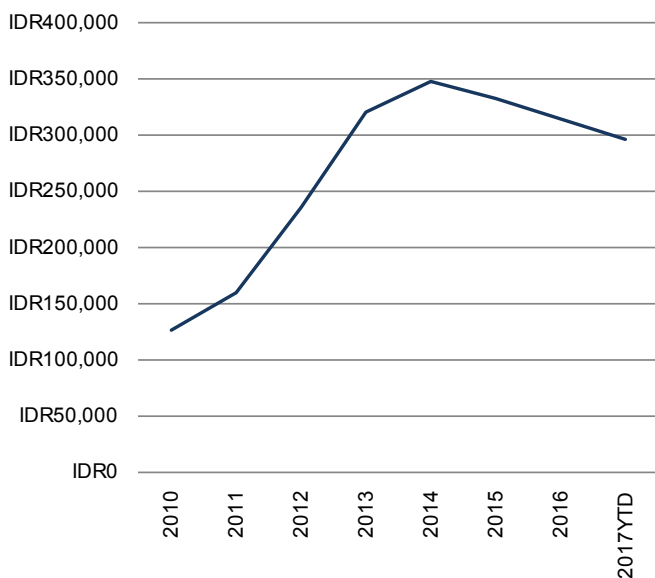
CBD

In line with the occupancy performance, the average rents in the CBD also showed a declining trend over the last three quarters. Newly operating office buildings offering base rental below market prices helped boost occupancy at first year operation. In addition, some office buildings announced to lower base rental tariff starting from IDR50,000 to IDR75,000 in 2017. Such condition caused the average rental rate to record at IDR295,729/sq m/month reflecting a drop by 14.4% YoY.

Based on building grades, average rents for grade B and C office buildings dropped significantly YoY. Slowing office demand caused premium and grade A office buildings to also adjust rental rates lower in order to maintain the existing tenants. We have seen a continual decline in rental rates by 17% YoY.

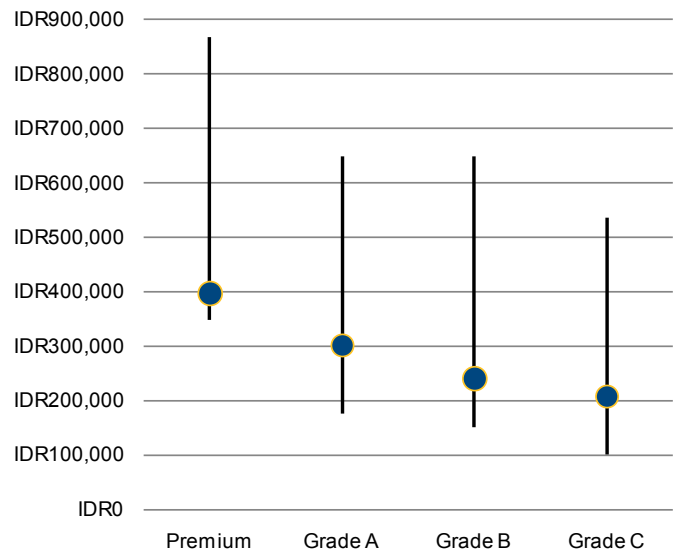
In some cases, we recorded a few office buildings adjusted rental tariff higher due to limited vacant spaces. Several office building are currently offering base rental of above IDR300,000/sq m/month, most of these buildings hold limited vacant spaces. Nevertheless, under the current market pressure experienced by most landlords, there is always possibility to be granted for reduction of any transaction involving large spaces. Office buildings with high vacancy will have limited options but to consider rental adjustment to catch up with the required occupancy level in order to cover the operating cost.

Average Asking Rents in the CBD (All Classes Office Buildings)



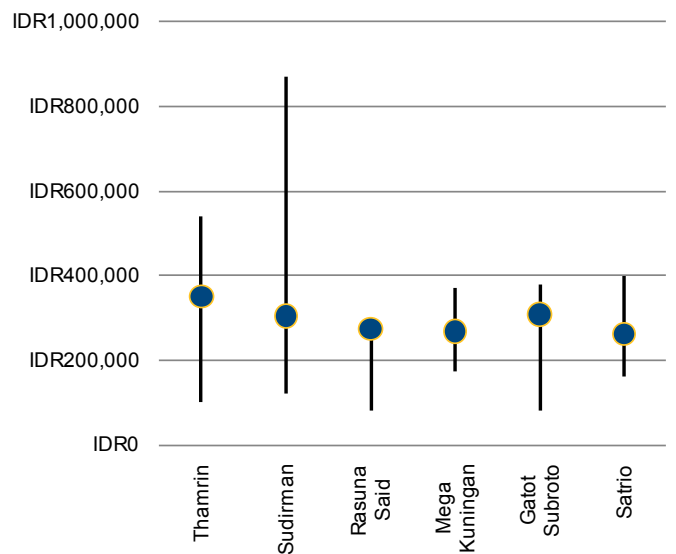
Source: Colliers International Indonesia - Research

The Range of Asking Rents Based on Building Grade



Source: Colliers International Indonesia - Research

The Range of Asking Rents Based on Each Market



Source: Colliers International Indonesia - Research

Outside the CBD

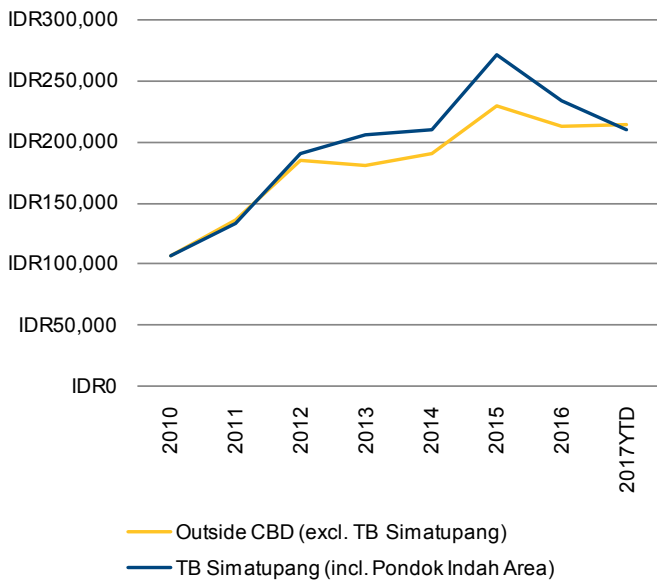
Average Rents				
	OVERALL OUTSIDE THE CBD	OUTSIDE CBD EXCLUDING TB SIMATUPANG	TB SIMATUPANG AND SURROUNDING AREAS	ONLY AT TB SIMATUPANG
Q1 2017	IDR228,008	IDR214,607	IDR209,852	IDR246,154

Source: Colliers International Indonesia - Research

The average rents showed an increasing trend in the last two quarters outside the CBD, albeit moderately. Several office buildings with high occupancy rates confidently raised base rental starting at IDR50,000 up to IDR100,000 in 2017. These office buildings were actually categorised as old office buildings that offered base rental between IDR80,000 and IDR130,000/sq m/month in the previous year. A newly operating office building also contributed to bring the average rents currently at IDR228,008/sq m/month outside the CBD. Based on area, the average rents were recorded at IDR214,607/sq m/month outside the CBD (excluding TB Simatupang).

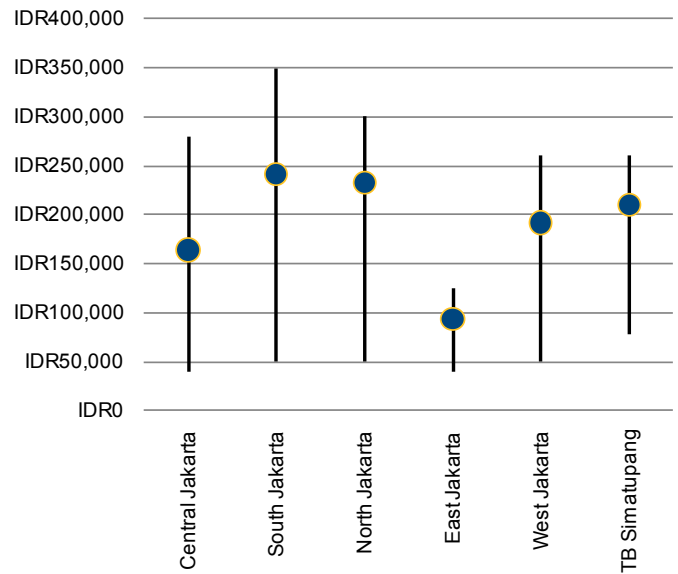
The average rents continued to decrease in TB Simatupang and the surrounding areas (including Pondok Indah), registering at IDR209,852/sq m/month as of Q1 2017, which is a drop of around 10% QoQ. Due to large prevailing vacancies, an office building located at Pondok Indah lowered the base rental in 2017. Meanwhile, office buildings located at Simatupang corridor recorded the average rents at IDR246,154/sq m/month as of Q1 2017 and maintained to achieve the highest average rents outside the CBD.

Average Asking Rents in Outside the CBD



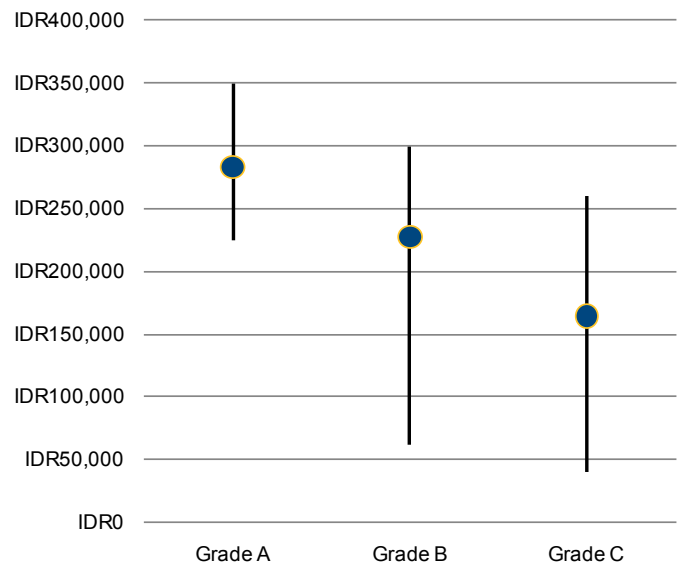
Source: Colliers International Indonesia - Research

The Range of Asking Rents Based on Each Market



Source: Colliers International Indonesia - Research

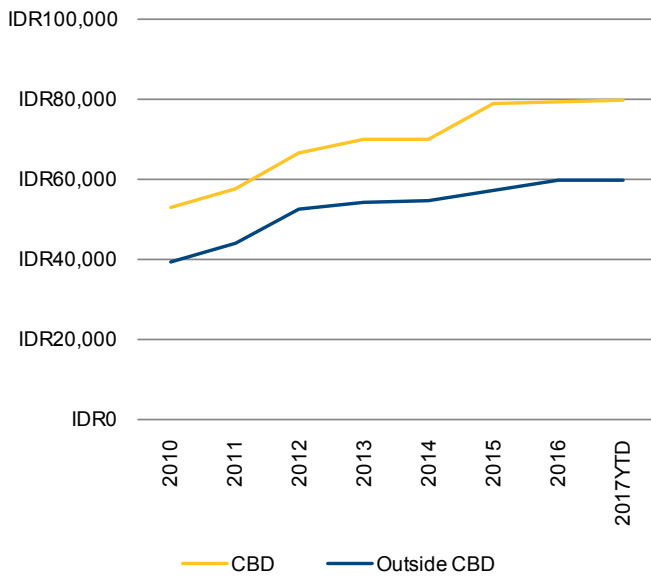
The Range of Asking Rents Based on Building Grade



Source: Colliers International Indonesia - Research

Service Charges

Service Charges



Source: Colliers International Indonesia - Research

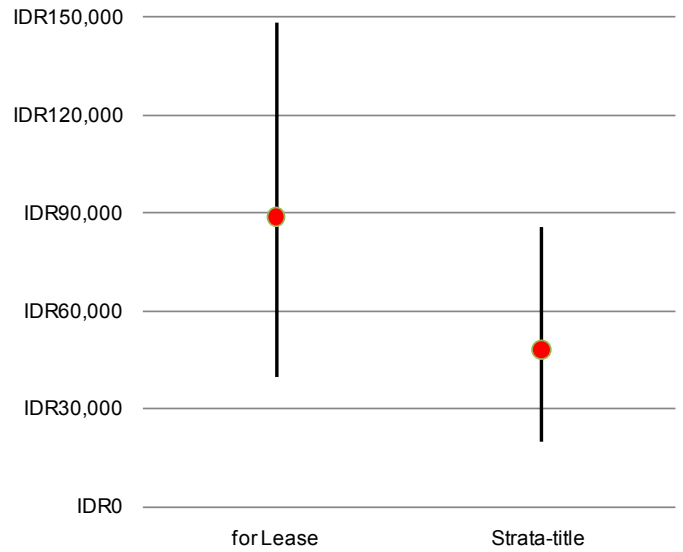
Service charges have been relatively stable for the last three quarters. In the CDB, three newly operating office buildings offer lower service charges than market rates. This condition brought the average service charge at IDR79,714/sq m/month as of Q1 2017, which was relatively flat QoQ.

Some office buildings offered a service charge tariff between IDR100,000 and IDR130,000. Meanwhile, the average service charges in Jalan Thamrin were recorded at IDR92,317/sq m/month, the highest in the CBD as of Q1 2017. The lowest service charges were recorded at Rasuna Said, at IDR69,420/sq m/month, contributed by more than half of the total number of office buildings at Rasuna Said, which still offered a service charge below current market prices of the CBD. By contrast, Wisma Budi (in Rasuna Said) quotes the highest service charge in the CBD. The other office buildings that offer very high service charges are Tamara Centre and Wisma Indosemen (in Sudirman).

Based on marketing scheme, the average service charges were recorded at IDR88,762/sq m/month for office for lease in the CBD, whilst strata-title offices offer service charge at an average of IDR48,181/sq m/month.

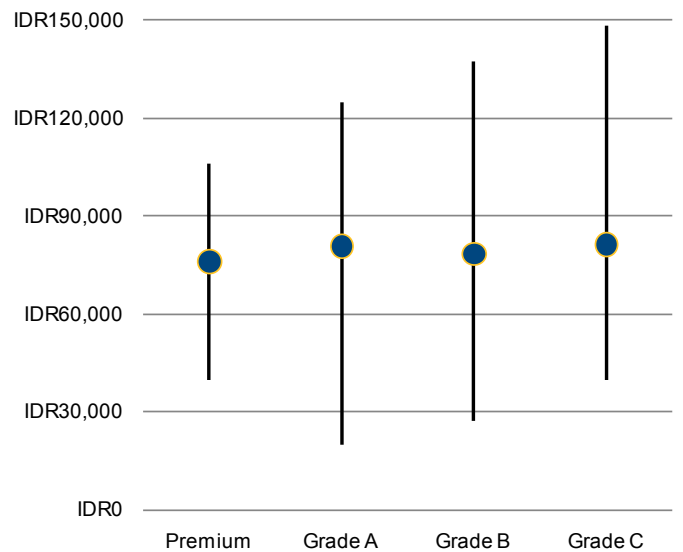
Outside the CBD, the average service charges were recorded at IDR64,392/sq m/month for office spaces for lease and IDR47,037/sq m/month for strata-title office. Overall, service charges were recorded at IDR59,670/sq m/month, which is a 3.4% increase QoQ.

The Range of Service Charge based on Marketing Scheme in the CBD



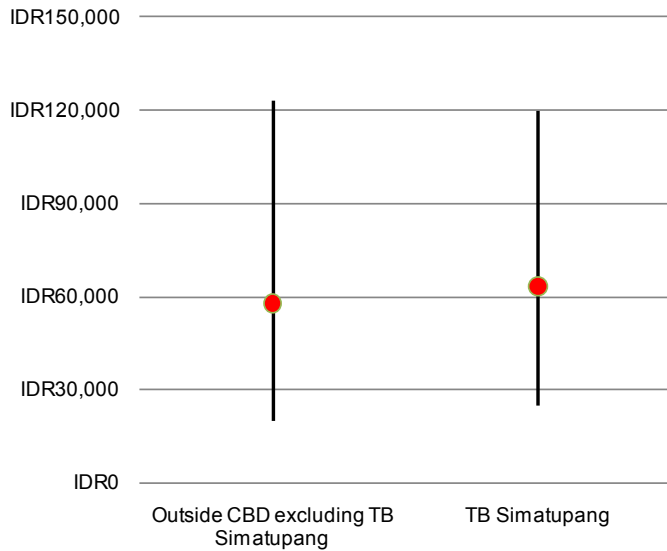
Source: Colliers International Indonesia - Research

The Range of Service Charge based on Building Grade in the CBD



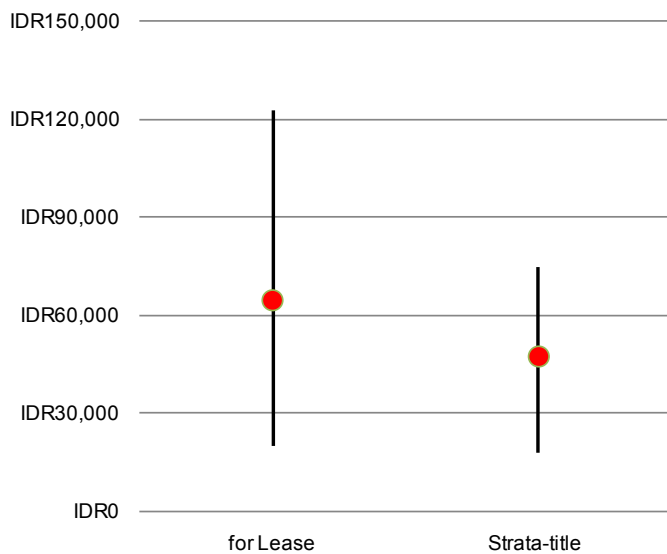
Source: Colliers International Indonesia - Research

Service Charges in Outside the CBD



Source: Colliers International Indonesia - Research

The Range of Service Charge Based on Marketing Scheme



Source: Colliers International Indonesia - Research

Strata-title Office

The relatively slow sales did not push landlords to reduce asking prices, and therefore it did not impact the drop in the average asking prices. Office space prices in the CBD remained relatively flat QoQ at IDR55.5 million/sq m. Some office buildings were offered starting at IDR40 million to IDR55 million/sq m in the secondary market for available spaces ranging between 600 sq m and 2,000 sq m.

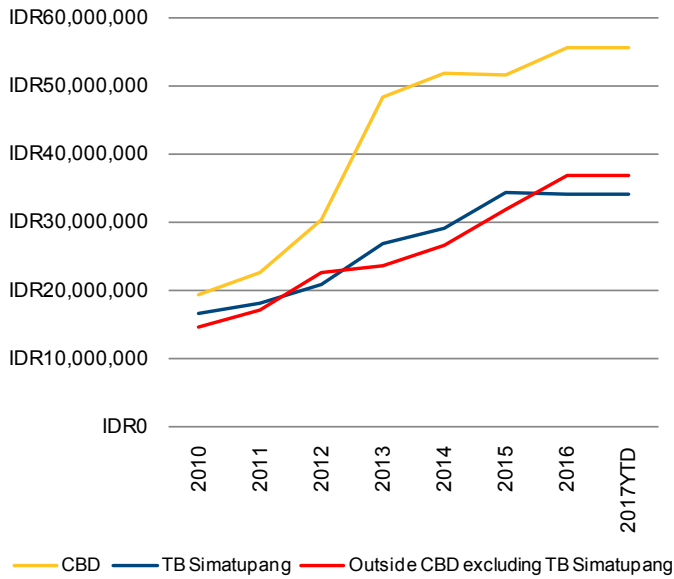
Pre-committed take-up rates achieved around 70% for strata-title office supply in 2017.

Outside the CBD area, office prices are offered starting at IDR20 million to IDR42 million/sq m with average asking price at IDR36.7 million/sq m. Again, the location determined the price. One office building located at Blok M (Kebayoran Baru), with proximity to the CBD, achieved an asking price at IDR50 million/sq m. In the secondary market, two office buildings located in Kelapa Gading and TB Simatupang were offered at IDR40 million/sq m for the secondary market.

TB Simatupang itself offered office spaces for sale at relatively the same price with other areas outside the CBD, i.e. between IDR28 million and IDR37 million/sq m. In fact, unsold spaces in existing office buildings and the number of projected office spaces for sale are limited in TB Simatupang. Average prices were recorded relatively flat QoQ at IDR34.1 million/sq m in TB Simatupang.

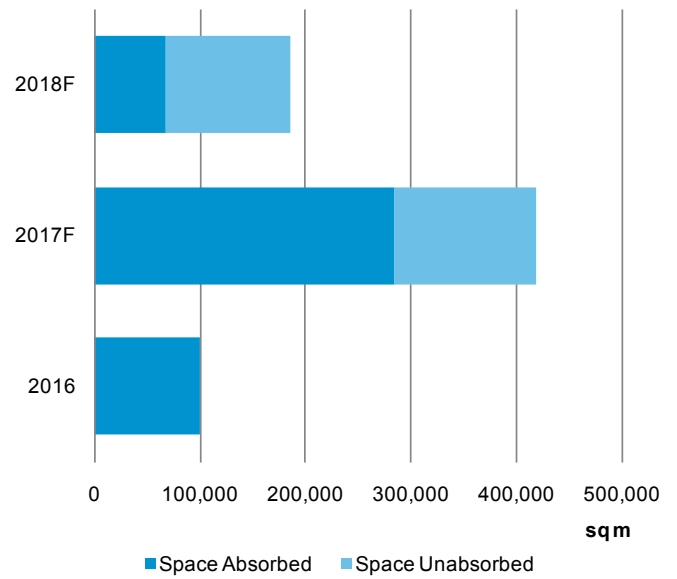
We have witnessed an impressive sales performance of new and future strata-title office buildings, highlighted by high pre-committed take-up rates that are registered at 75%. Furthermore, the strata-title supply pipeline also suggests that the number of this type of office buildings is fairly limited compared to office for lease. Nonetheless, the market is currently holding a great number of vacant spaces that might reduce the appetite of investor-type of buyers to purchase strata-title office spaces. Going forward, we opine that office price will be stagnant, until rental market gains strength.

Average Asking Prices based on Spaces Available



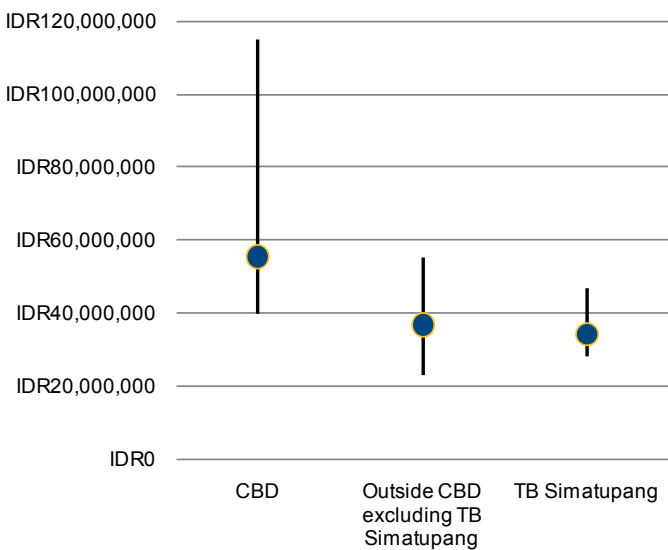
Source: Colliers International Indonesia - Research

Pre-Committed Absorption of Strata-Title Office Buildings for Sale in the CBD



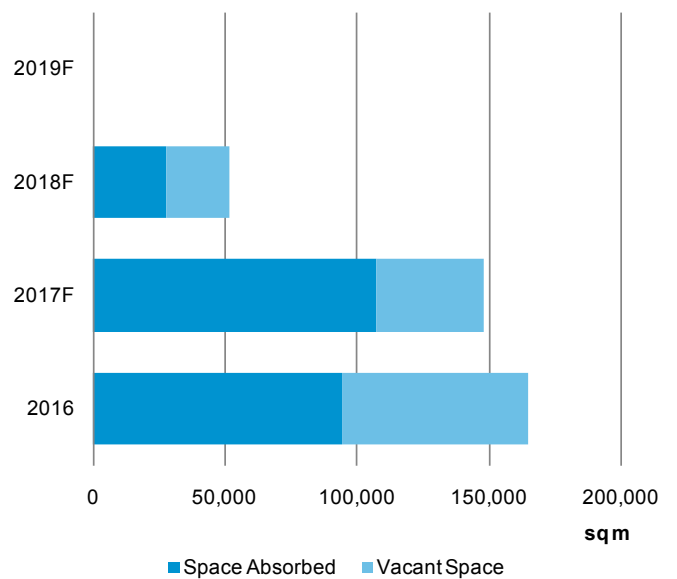
Source: Colliers International Indonesia - Research

The Range of Asking Prices in the CBD Based on Area



Source: Colliers International Indonesia - Research

Pre-Committed Absorption of Strata-Title Office Buildings for Sale in Outside the CBD



Source: Colliers International Indonesia - Research

Concluding Thought

Enquiries from e-commerce business, information and technology, and telecommunication industries have helped fuel office industry apart from other traditional tenants. Landlords tend to maintain rental rates or even provide more discounts, particularly when a building needs to catch up with the minimum occupancy target in order to cover their operating costs.

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