Colliers Quarterly

JAKARTA | INDUSTRIAL ESTATE

Q1 2018

8 May 2018

Accelerating success.

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The industrial market started 2018 with very few sales, marking it the worst first quarter for the past few years. However, last year started similarly but sales gradually increased through the end of 2017. Despite the lackadaisical sales performance in Q1, we still believe sales will increase in 2018 given the demand pipeline on the horizon. Like the other sectors, the industrial market is expected to start picking up at least in early 2020.

Forecast at a glance

Demand

The logistics, food, automotive and manufacturing sectors will continue to propel the overall demand for industrial land in the future, given their indicated interests and recent transactions.

Supply

New industrial land supply will be heavily concentrated in the Karawang area, due to the existing and future industrial estates of almost 1,952 hectares in the long term. Immediate future supply might be available from the expanding industrial estates or from some active industrial lands located in Trans Hexa Karawang.

Land Price

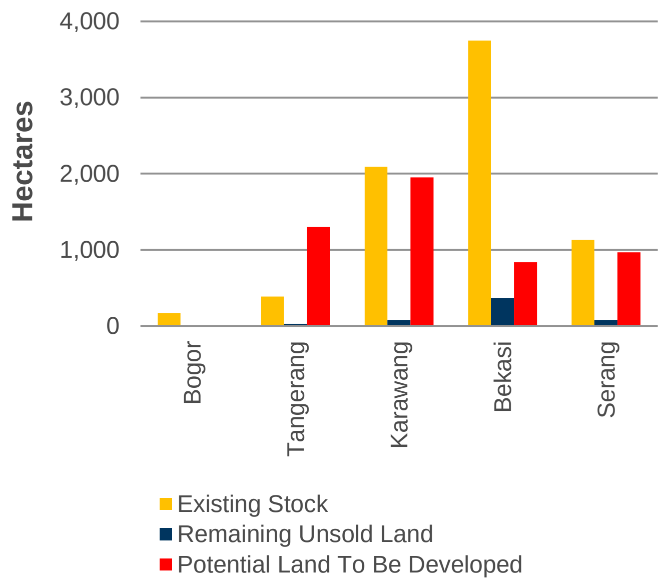
There is no rationale to expect industrial land prices to increase in 2018, particularly considering the current market situation. We expect to see price adjustment most likely at the end of 2019.

Land Supply

Indonesia's GDP expanded by 5.1% in 2017, on the back of strong investment and export demand. We expect the momentum to carry into 2018, with further growth of 5.3%. Furthermore, infrastructure investment will likely be the main driver of growth, with more projects in the pipeline, including transportation developments along an industrial township in the eastern part of Greater Jakarta. This includes the construction of an elevated toll road, the LRT and high-speed train (HST) connecting Jakarta and Bandung. Another key issue behind the expansion of some industrial estates is the future Patimban seaport project located in Subang, further east of Greater Jakarta. This new port would likely reduce dependence on the existing Tanjung Priok port and provide more accessibility and time for industrial activities in the eastern part of Greater Jakarta.

There is an indication that Subang, where the Patimban seaport will be located, is the next target of expansion by several industrial estate developers. The development of the port will also trigger existing industrial estates within the port's catchment area, such as in Karawang, Purwakarta and even Subang, to expedite their expansion plan in anticipation of the growing market.

Industrial Land Stock Status in Some Active and Future Industrial Estates



Source: Colliers International Indonesia - Research

The growth of a new industrial land supply will be heavily concentrated in Karawang area, particularly in Trans Hexa Karawang, where several new industrial estates are located. Thus far, there are two active industrial estates, Artha Industrial Hill and Karawang New Industry City, developed by CFLD. Another estate, GT Techpark at Karawang, developed by Gajah Tunggal, has not been very active in the market, mainly focusing on preparing facilities for use by their group companies.

Bekasi and Karawang will soon be transformed into an integrated city underpinned mainly by the mature industrial sector. Quite a few industrial estates, primarily estates with highly density tenants, are now focusing on developing commercial areas. In the future, the face of Bekasi and Karawang will not merely be about industrials, but more about providing facilities and properties for the growing population.

Land Sales Activity

The first quarter of 2018 was not an impressive period for the industrial sector and probably the worst for the past few years with only 12.27 hectares transacted in a few transactions. Modern Cikande was responsible for the largest amount of land transacted, and despite being only approximately 3.55 hectares, was good enough to compare with other industrial estates. Meanwhile, Bekasi Fajar has been quite consistent in selling. In fact, land availability in that area is the main issue for most industrial estates. Industrial estates, such as MM2100, highlighted that they do not have land to sell and transactions only occurred in the secondary market.

The 3.55 hectares sales recorded by Modern Cikande in Q1 2018 were composed of three new transactions and two expansions from existing tenants in the food, pesticide and building materials industries. The companies expanding comprised the steel and auto parts sectors. Going forward, we expect to see more contributions from this estate with some upcoming sizeable transactions, probably in the next quarter.

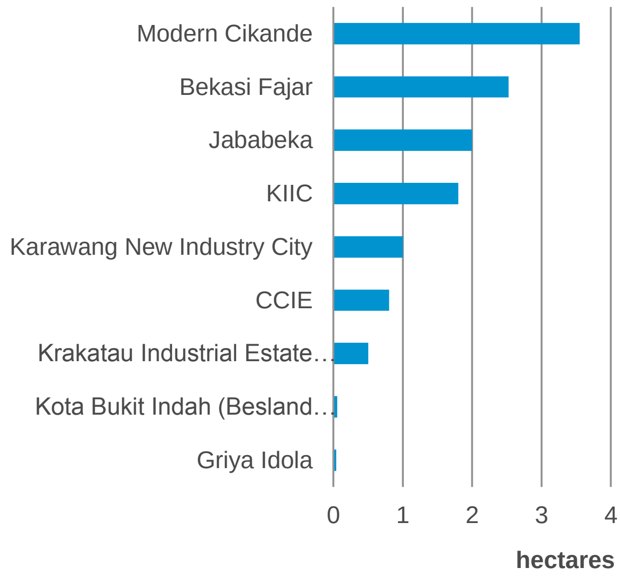
Meanwhile, the automotive sector has concluded more transactions, with two each in Both Bekasi Fajar and KIIC. Two local automotive companies accounted for a total of 2.52 hectares of land in Bekasi Fajar. Two other land sales were reported by KIIC from expanding tenants and a new company totalling 1.80 hectares. Albeit small, the expansion of the automotive sector is interesting to highlight after the domination of the food and logistic sectors for the past few years. However, we think it is too early to expect that the automotive sector will dominate since some demands in the pipeline are quite varied. Jababeka reported a 2-hectare sales of either land or land with industrial buildings from a variety of industries including food, FMCG and healthcare. Both local companies and companies from Japan, Korea and Europe accounted for this demand. Meanwhile the new Karawang New Industry City also reported sales of around 1 hectare from Chinese e-commerce company.

Other notable transactions this quarter have been relatively small, less than a hectare. Early in the year, Griya Idola reported only two small deals totalling 384 sq m for industrial buildings from companies that buy chemical and medical equipment. KIEC in Serang also reported one sale from a local oil and gas company buying around 5,000 sq m of land.

Beside sales activities, leasing transactions also occurred in two industrial estates that specifically offer land or building for lease. In Kota Bukit Indah (operated by Besland Pertiwi/Salim Group), a plastic packaging company will occupy one 540-sq m warehouse unit. Meanwhile, after having small leasing transactions last quarter, CCIE in Bogor concluded an 8,000 sq m lease for warehouse use in Q1 2018 from a new tenant.

Due to internal consolidation in the company, GIIC's sales performance update will not be included in this periodical report and will become available in the second quarter. We believe that the sales volume occurring in this estate will distinguish the overall sales performance in the region, as shown in past several periods.

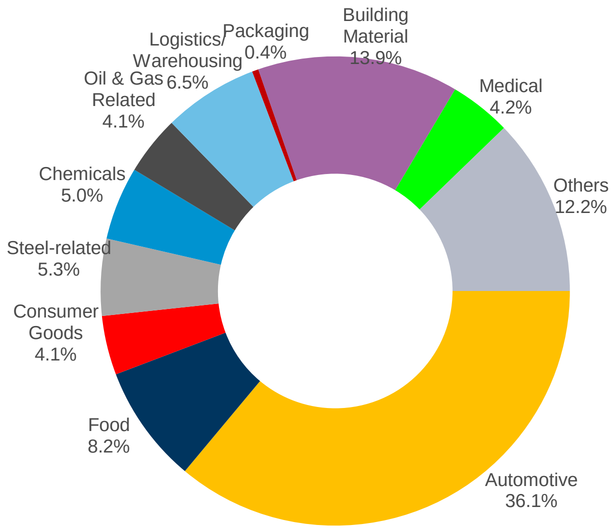
Land Absorption in Q1 2018



Source: Colliers International Indonesia - Research

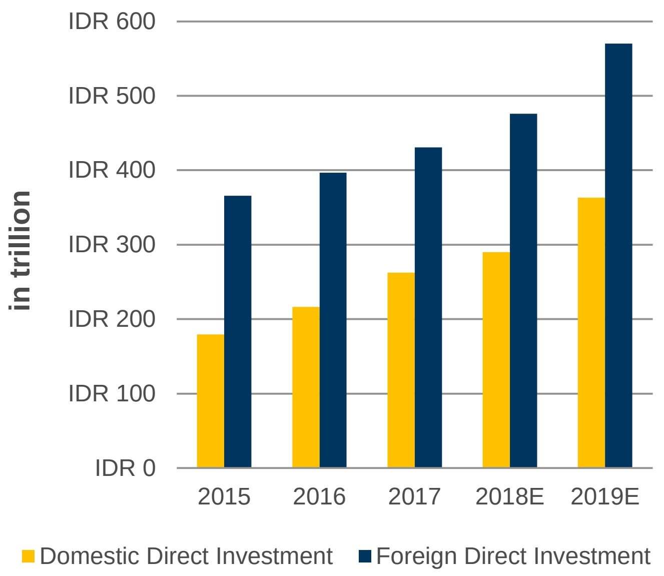
According to Oxford Economics, in Indonesia there is solid growth in consumer and investment goods imports that suggests signs of improvement in domestic demand. After registering sound growth for the past few years before being taken over by the logistics sector, the automotive sector is the main driver for demand early this year. Although it is too early to conclude in the beginning of the year, this sector will at least be important going ahead in propelling industrial market this year. The manufacturing activities on the other hand have probably improved on stronger domestic demand, which also impacts the growth of other sectors.

Types of Active Industries During Q1 2018 Involved in the Transaction



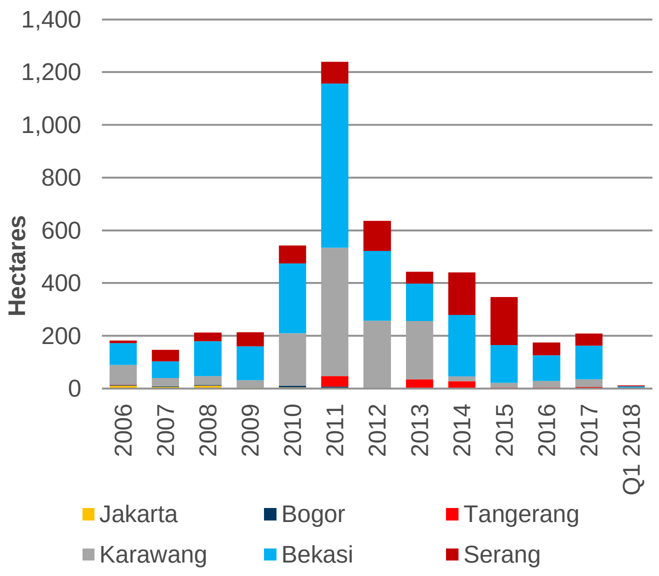
Source: Colliers International Indonesia - Research

Realisation of Domestic and Foreign Direct Investment



Source: Colliers International Indonesia - Research

Annual Industrial Land Absorption



Source: Colliers International Indonesia - Research

The amount of money invested in Indonesia may reflect expansion activities in industrial estates. As shown in the following chart, we expect industrial sales activities to still grow this year, but probably in a moderate quantity.

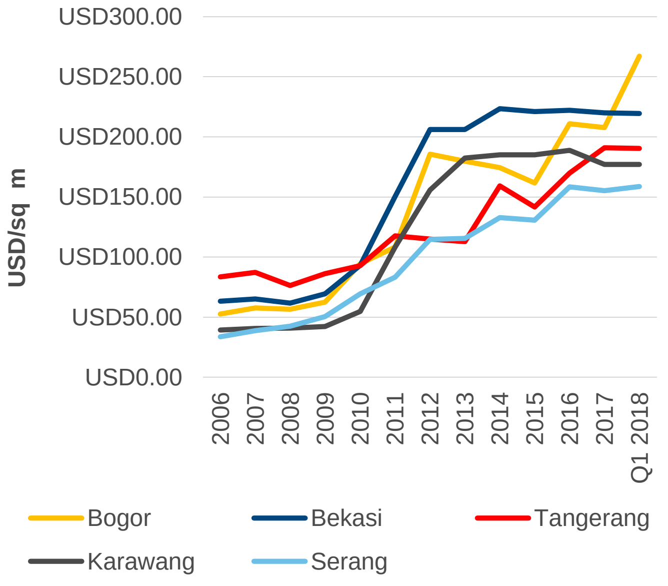
Land Price and Maintenance Costs

Given the overall sluggish sales condition, industrial landlords are generally at a stance to maintain their price. With tight market competition as in Bekasi or Karawang, industrial estates in the region are in the position to keep their price at the current level. In Q1 2018, none of the industrial estates in Bekasi or Karawang reported any price adjustment, as the market is getting tougher. Serang is one of the regions that recorded consistent sales every quarter with only two operating industrial estates. Land prices in Serang have been adjusted several times in line with sales performance. Meanwhile, one industrial estate in Bogor with very limited land stock is now quoting the most expensive price in Greater Jakarta. Bogor may not be a preferred location for most of the industrialists, but its proximity to Jakarta, good access and limited land for industrial uses have driven the increase in rents.

The newest industrial estates operating in Tangerang are now offering the highest price in the region, because the region is equipped with good facilities, infrastructure and is very close to Jakarta, amongst other reasons. This explains the land price surge in Tangerang for the past few years.

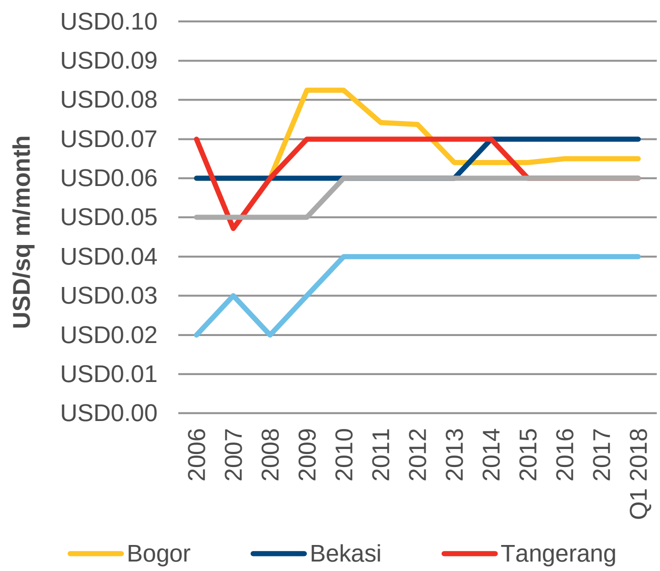
The majority of industrial estates still quote service charge tariffs in USD of around IDR1,000/sq m/month. The lowest tariff is found in Serang, ranging from IDR600 to 650/sq m/month. For some periods, the service charge tariff has remained unchanged. This will probably continue to stay flat, unless the operating costs increase considerably, which is normally triggered by regional minimum wages, fuel and electricity tariffs.

Greater Jakarta Industrial Land Prices



Source: Colliers International Indonesia - Research

Greater Jakarta Industrial Maintenance Costs



Source: Colliers International Indonesia - Research

INDUSTRIAL LAND PRICES AND MAINTENANCE COSTS (IN USD EQUIVALENT)

	Land Price (/sq m)			Maintenance Cost (/sq m/month)		
	Lowest	Highest	Average	Lowest	Highest	Average
Bogor	184.2	350.0	267.1	0.06	0.06	0.06
Bekasi	176.8	235.8	219.5	0.06	0.08	0.07
Tangerang	147.4	240.1	190.3	0.03	0.08	0.06
Karawang	170.0	185.0	177.0	0.05	0.10	0.06
Serang	147.4	170.2	158.8	0.03	0.05	0.05

Source: Colliers International Indonesia - Research

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