

JAKARTA | RETAIL

Q1 2018

8 May 2018

Accelerating success.

Ferry Salanto Senior Associate Director | Jakarta

As the fourth-most populous country in the world, Indonesia has a retail market wherein foreign retailers have always been tempted to target or expand, particularly in upper-middle class shopping centres in Greater Jakarta.

Several retail brands are eyeing Indonesia even during the currently dormant market situation, which was highlighted by flat occupancy and rental rates. On the other front, the spending activities of Indonesian millennials have shifted from going to traditional shopping centres to making e-commerce transactions, which will add more pressure to this sector. All in all, we still believe that shopping centres should continue to exist because beyond simply shopping, they offer experiences and recreation. Considering the shift to e-commerce and the quantity of new supplies coming online, both landlords and retailers should remain updated on the dynamic market especially on accommodating millennials.

Forecast at a glance



Demand

We expect the level of retail demand to flatten in the short term, dominated by enquiries of relatively small to medium sized spaces. F&B will continue to underpin the retail market with space requirements ranging from 100 to 300 sq m.



Supply

Albeit slow, retail supply in Jakarta will continue to increase and reach 4.7 million sq m in 2018. Meanwhile, two shopping centres are anticipated in Bogor (Greater Jakarta area) bringing the total retail space in Greater Jakarta to 2.6 million sq m.



Occupancy

Occupancy is expected to flat with future supply coming online at a measured pace and the current sizeable vacant spaces remaining from 2017. Collier's expectation is that there will not be a

substantial amount of space absorption in the near term.



Rent

With the occupancy rate expected to be flat, rental growth is also expected to be tepid as the adjustment in rental rates is very much dependable on the performance of the overall occupancy rate, with a strong correlation between the two.



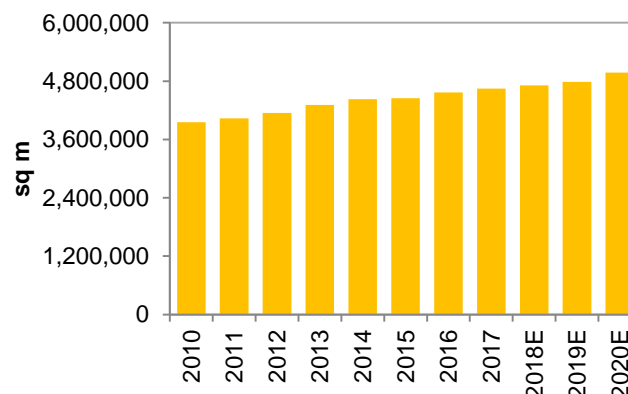
Service Charges

Service charges will still be relatively flat in 2018.

Jakarta

Supply

Cumulative Retail Supply in Jakarta



Source: Colliers International Indonesia - Research

The effects from the limiting of permits on new shopping centres in Jakarta will likely continue up to 2019. The cumulative retail supply in Jakarta remains at 4.6 million sq m as of Q1 2018. Only one shopping centre, New Harco Glodok, is projected to come online in Q2 2018. This shopping centre is offered for sale and will be the first strata-title shopping centre in Jakarta in eight years.

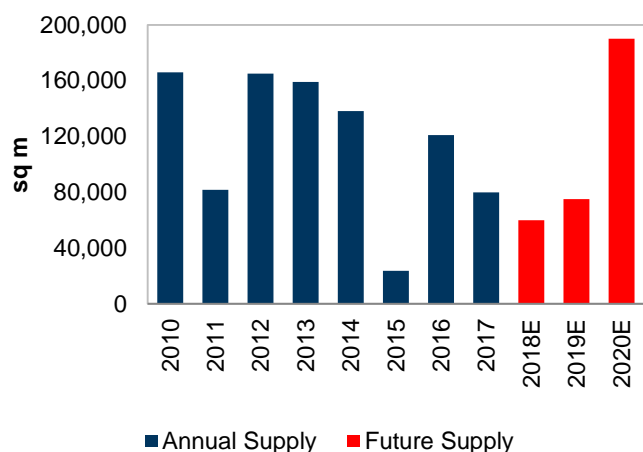
The construction of two upcoming shopping centres, including Aeon Mall at South Gate, and a shopping mall at Holland Village, are showing progress and would likely

meet their scheduled opening in 2019. These three malls will increase the total retail supply in Jakarta by 3% only through 2019.

NEW SUPPLY PIPELINE IN JAKARTA					
SHOPPING CENTER	LOCATION	REGION	DEVELOPER	NLA (SQ M)	DEVELOPMENT STATUS
2018					
New Harco Plaza	Glodok	West Jakarta	Agung Podomoro Land	60,000	Under Construction
2019					
Shopping Mall at South Gate	Lenteng Agung	South Jakarta	Sinarmas Land & Aeon	35,000	Under Construction
Holland Vilage Mall	Cempaka Putih	Central Jakarta	Lippo Karawaci Tbk	40,000	Under Construction
2020					
Menara Jakarta Shopping Mall	Kemayoran	Central Jakarta	Agung Sedayu Permai	100,000	Under Construction
Daan Mogot City	Daan Mogot	West Jakarta	China Harbour	30,000	In Planning
Pondok Indah Mall 3	Pondok Indah	South Jakarta	Metropolitan Kentjana	60,000	In Planning

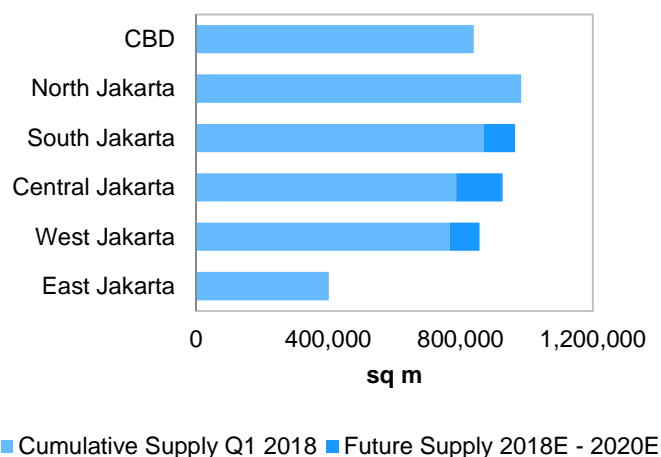
Source: Colliers International Indonesia - Research

Annual Supply of Retail Spaces in Jakarta



Source: Colliers International Indonesia - Research

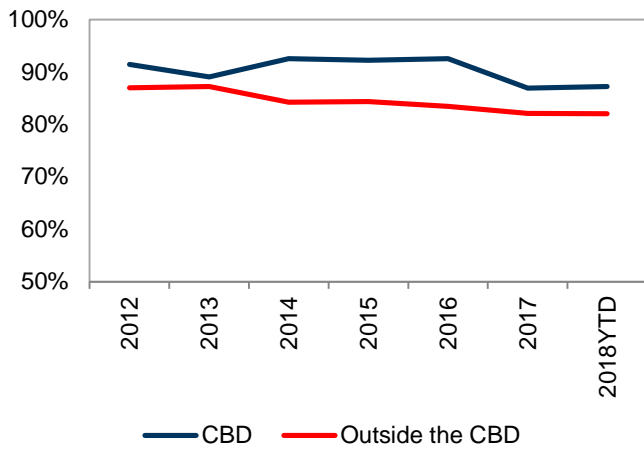
Total Retail Spaces by Region in Jakarta



Source: Colliers International Indonesia - Research

Occupancy

Occupancy Rates Based on Area in Jakarta



Source: Colliers International Indonesia - Research

The overall retail market occupancy in Jakarta is generally flat in Q1 2018. After falling 2.3% in 2017, the occupancy rate is still 83.5%.

Some international brands such as Clarks, Banana Republic, Gap and New Look closed their stores in Indonesia in 2018. Despite their closures, Indonesia remains attractive to foreign retailers. Miniso, a Japanese low-cost retailer and variety store chain that specialises in household and consumer goods, is ready to open about 100 new outlets throughout 2018. Meanwhile, a hypermarket chain and retail company headquartered in Abu Dhabi, Lulu Group Retail International, will open an additional 10 outlets by 2019. Since 2017, Lulu has been operating two stores in Indonesia.

The competition between conventional retail formats and online shopping will likely continue in 2018. There is a tendency that middle and lower-income groups are benefiting most from being technology savvy, which saves time and even offers cheaper prices. In anticipation of such competition, retailers, such as chain retailer Mitra Adiperkasa Tbk, are preparing a new strategy that will focus on developing speciality stores combined with an F&B format. Such retail chains have become more selective and only maintain the brands that are already proven in the market to provide good profitability.

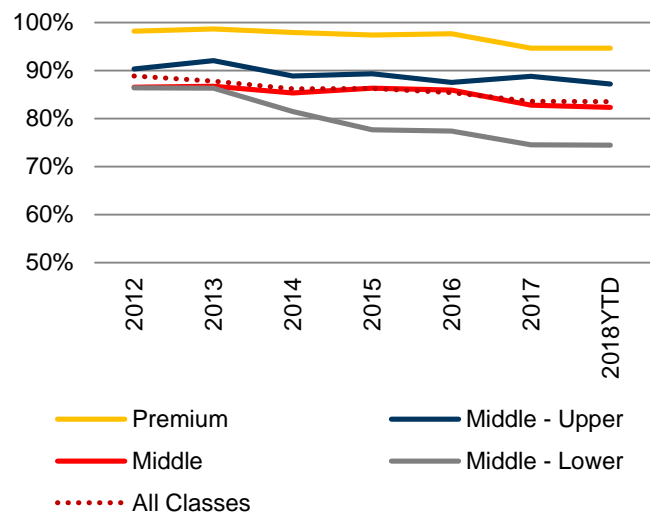
According to APPBI (Indonesia Shopping Centre Association), the shoppers' profile is generally dominated by millennials, those aged 24 to 35. This generation has been exposed to digitalisation so that the appearance and composition of tenants within a mall should follow their taste. Nowadays, shoppers prefer to

visit stores that focus on specific products but have a complete collection, compared to stores that offer too many product categories.

Japanese retailer Uniqlo is extending its coverage in Jakarta by opening its 12th store in Lippo Mall Kemang. Meanwhile, H&M opened its new outlet in the Mall of Indonesia in early 2018.

In our view, the swift influence of online shopping has yet to impact the existence of premium shopping centres, particularly because the merchandise typical of this type of format is not widely transacted online. Since 2010, the average occupancy rate of premium-class shopping centres was still recorded at above 90% and was relatively stable at 94.6% QOQ as of Q1 2018.

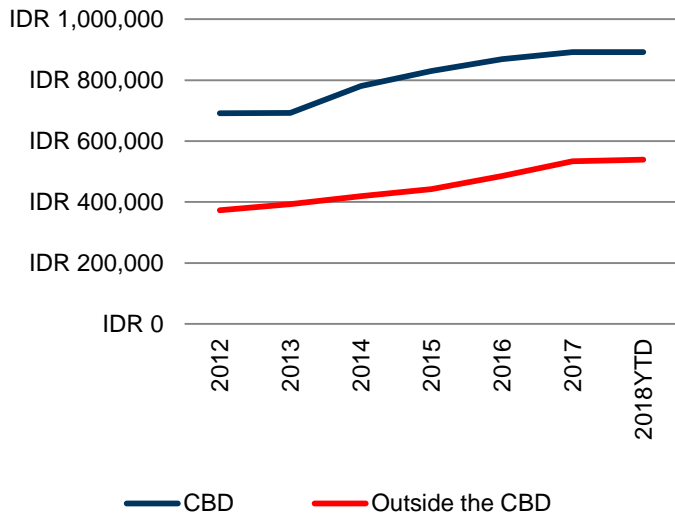
Occupancy Rates by Mall Grades in Jakarta



Source: Colliers International Indonesia - Research

Rents

Average Asking Rents in Jakarta



Source: Colliers International Indonesia - Research

Given that occupancy rates have been in a downward trend from 2015 to 2017, quite a few landlords will keep rental rates at the same level through 2018. In Q1 2018, the average rental rates were relatively flat QOQ, reaching an average of IDR/616,491/sq m /month, or a 5.6% increase YOY.

The occupancy cost for space at premium-class shopping centres was recorded at IDR1.42 million /sq m/month in Q1 2018, whilst for mid-low class shopping centre, the average was IDR282,755/ sq m/ month (ranging from IDR200,000 to IDR350,000/sq m/month).

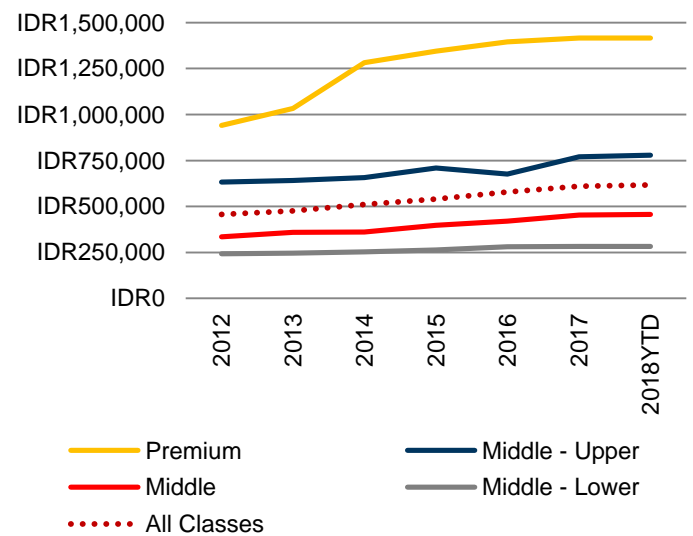
NEWLY OPENED AND COMMITTED RETAILERS IN JAKARTA		
RETAILERS	SHOPPING CENTRE	SIZE (SQ M)
January 2018		
Planet Sports	Pacific Place	500
Uniqlo	AEON Mall JGC	1,100
Ace Hardware	Jatinegara Citi Plaza	1,950
H&M	Pacific Place	2,000
Informa	Jatinegara Citi Plaza	2,300
H&M	Mall of Indonesia	2,400
Ace Hardware	One Belpark	2,500

February 2018		
Ace Hardware	Senayan City	2,500
April 2018		
Uniqlo	Lippo Mall Kemang	2,000

May 2018		
Stradivarius	Senayan City	600
Ace Hardware	Epiwalk	2,000
Informa	Epiwalk	2,400
Zara	Senayan City	4,000

Source: Colliers International Indonesia - Research

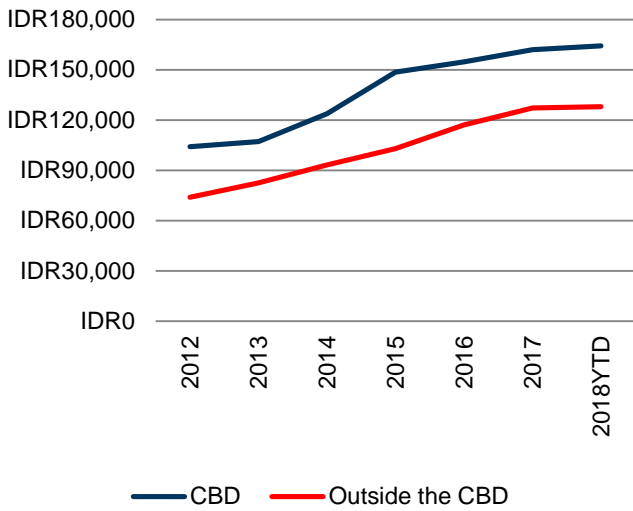
Average Asking Base Rents by Mall Grade in Jakarta



Source: Colliers International Indonesia - Research

Service Charges

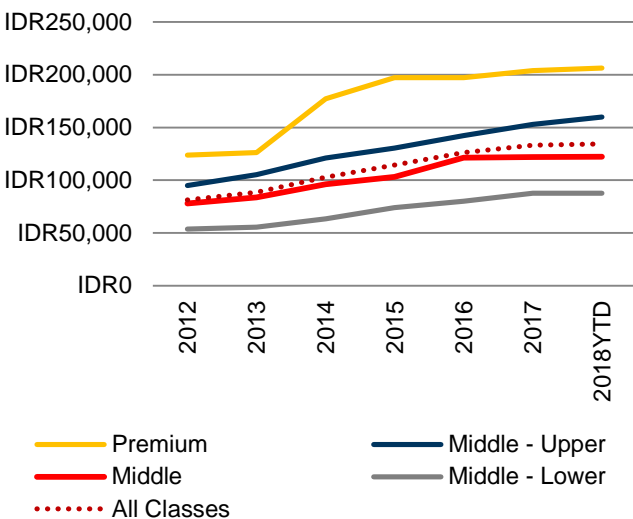
Average Service Charges in Jakarta



Source: Colliers International Indonesia - Research

The average service charge was quite stable this quarter with a minor 1.6% change YOY to stay at IDR134,350/sq m/month. In fact, there were some shopping centres in the CBD that reported fairly small increases in service charges, below 5%, bringing the average service charge in the CBD at IDR164,359/sq m/month, about 30% higher than outside the CBD.

Average Service Charges Based on Mall Grades in Jakarta

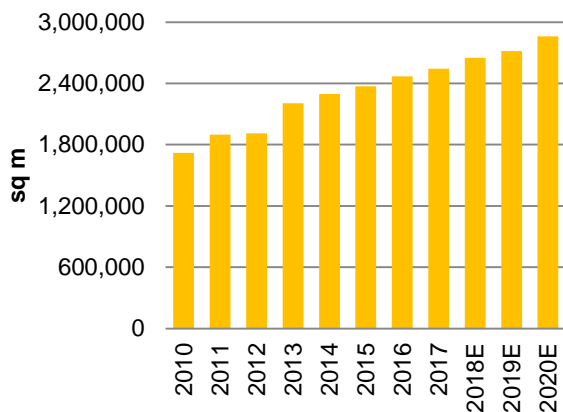


Source: Colliers International Indonesia - Research

Greater Jakarta (Bogor, Depok, Tangerang and Bekasi)

Supply

Cumulative Retail Supply in Greater Jakarta



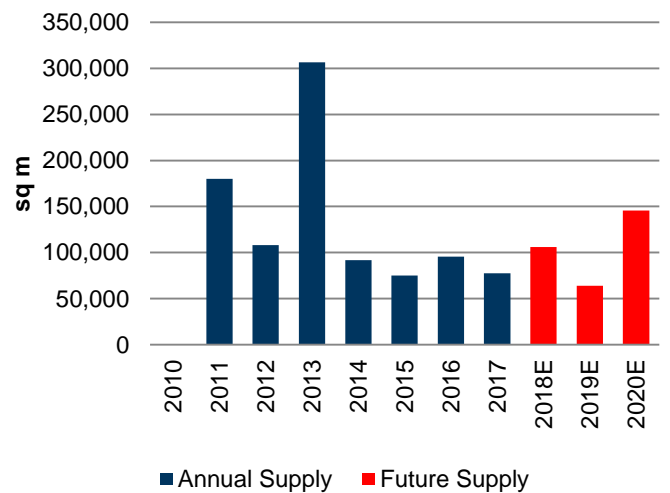
Source: Colliers International Indonesia - Research

Two shopping centres, Galeria Vivo Sentul (within Cimandala City) and Aeon Mall Sentul City, are nearing their opening dates in 2018. These two will bring more than 100,000 sq m of new retail spaces in Greater Jakarta. Whilst waiting the completion of these two malls, total retail supply remains at 2.55 million sq m.

From 2019 to 2021, the supply pipeline shows that Bekasi will have more new retail spaces compared to other regions. Total supply projection during that period is 373,685 sq m, about 75% of which will be contributed by Bekasi.

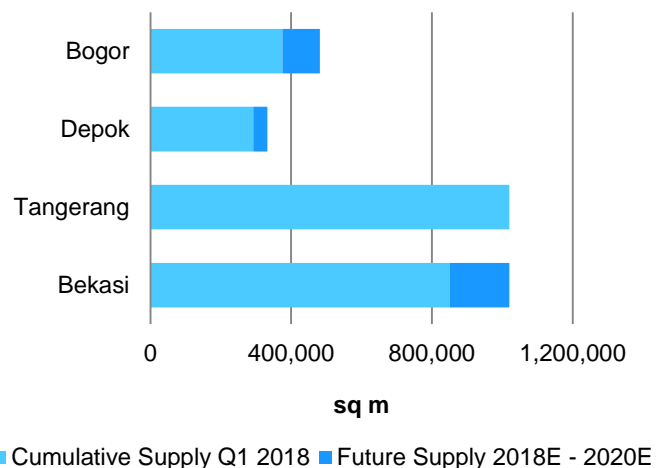
Two future shopping centres in Depok are part of a mixed use development, highlighting that plot ratio regulation in Depok is pretty high in certain commercial locations.

Annual Supply of Retail Spaces in Greater Jakarta



Source: Colliers International Indonesia - Research

Total Retail Spaces by Region



Source: Colliers International Indonesia - Research

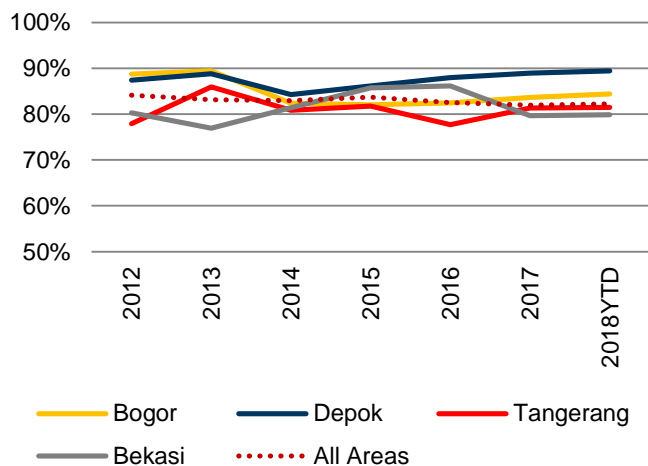
NEW SUPPLY PIPELINE IN GREATER JAKARTA

SHOPPING CENTER	LOCATION	REGION	DEVELOPER	NLA (SQ M)	DEVELOPMENT STATUS
2018					
Galeria Vivo Sentul	Sentul	Bogor	Megapolitan	35,000	Under Construction
AEON Mall Sentul City	Sentul	Bogor	AEON & Sentul City	71,000	Under Construction
2019					
Grand Dhika City Mall	Bekasi	Bekasi	Adhi Persada Property	24,000	Under Construction
Shopping Mall at Pesona Square	Juanda	Depok	Menara Depok Asri	40,000	Under Construction
2020					
Plaza Indonesia Jababeka	Cikarang	Bekasi	Plaza Indonesia Realty & Graha Buana Cikarang	55,685	In Planning
AEON Mall Deltamas	Deltamas	Bekasi	AEON & Deltamas	90,000	In Planning
2021					
Living World Jababeka	Cikarang	Bekasi	Kawan Lama	18,000	In Planning
Kota Harapan Indah	Kota Harapan	Bekasi	Hasana Damai Putra	51,000	In Planning
Shopping Centre at Kota Wisata	Cibubur	Bekasi	Sinarmas Land	45,000	In Planning
Mall at Transpark Cibubur	Cibubur	Depok	Transcorp	30,000	In Planning

Source: Colliers International Indonesia - Research

Occupancy

Average Occupancy by Region in Greater Jakarta



Source: Colliers International Indonesia - Research

The overall occupancy rate for all regions in Greater Jakarta was relatively flat for the last three years. Today, it hovered at 82.2% or only rose mildly below 1% QOQ. Whilst the general market in this region has been stable, average occupancy performance of high-end shopping centres in Greater Jakarta is slightly better than in Jakarta.

The average occupancy rate of middle-upper class shopping centres in Greater Jakarta was 91.8% as of Q1

2018, suggesting that upscale shopping centres in buffer zones attract the attention of local and even international brands in line with the growing middle-upper housing compounds. Some international brands are actively expanding their presence outside Jakarta, including Miniso that opened its new stores at Lagoon Avenue (Bekasi) and Cinere Bellevue (Depok), and has also partnered with Lulu Hypermarket and became the anchor tenant at their retail project, Galleria Mall VIVO Sentul.

NEWLY OPENED RETAILERS IN GREATER JAKARTA

RETAILERS	SHOPPING CENTRE	SIZE (SQ M)
January 2018		
JYSK	Lagoon Avenue Bekasi	2,320
March 2018		
Ace Hardware	Teraskota	2,000

Source: Colliers International Indonesia - Research

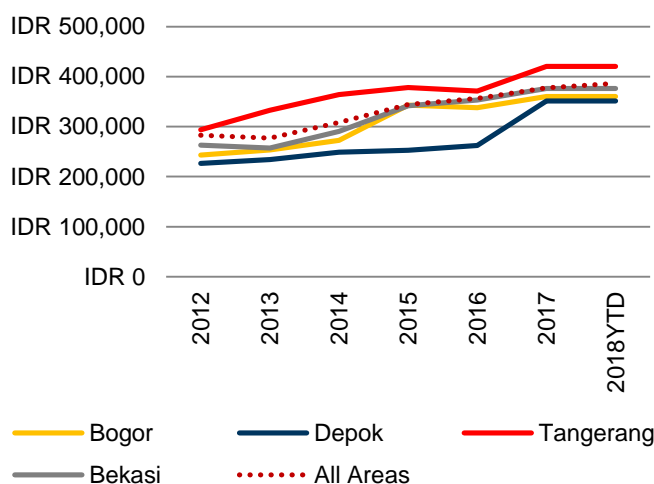
Rents

The average rental rates of shopping centres in Greater Jakarta jumped 9.2% YOY to IDR386,509/sq m/month. Some middle class shopping centres adjusted the base rents higher than 20% in one year. A shopping mall in Serpong (Tangerang) even offered rental tariff at 50% higher than last year for vacant spaces on the ground floor. This situation reveals how desirable spaces in well-

located shopping centres are still commanding premium rents despite the overall flat occupancy rate.

The average rental rates for middle and middle-upper class shopping centres in Greater Jakarta were IDR372,318 and IDR525,550/sq m/month, respectively. This is 20-30% lower than in Jakarta. The expectation on strengthening consumer demand and the fact of relatively low rental rates have triggered local and foreign retailers to expand at middle-upper class shopping centres in the Greater Jakarta area.

Average Rents in Several Regions in Greater Jakarta



Source: Colliers International Indonesia - Research

Service Charges

Service charges adjusted by 2.6% higher YOY and are now at IDR103,074/sq m/month on average. The gap of service charge costs amongst the regions was very thin, mainly determined by the different regional rate of minimum wages.

Some middle to middle-upper class shopping centres in Tangerang are quite sanguine to quote higher service

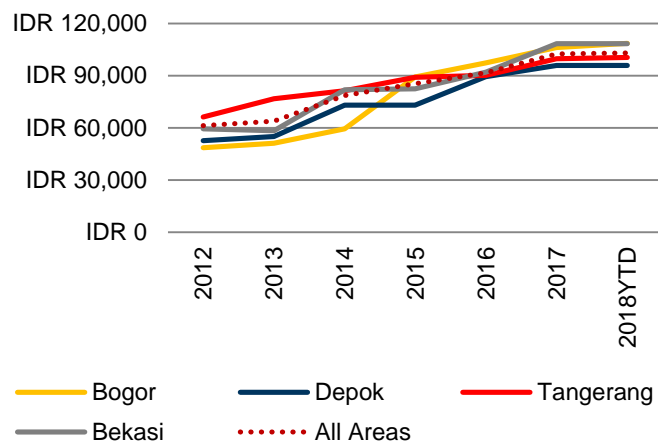
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charges, starting at IDR130,000 to IDR160,000/sq m/month. On the contrary, there were also some shopping centres that quoted their tariff far below market average. As such, the overall service charge tariff in Tangerang is below Bekasi and Bogor.

Average Service Charges in Different Regions in Greater Jakarta



Source: Colliers International Indonesia - Research

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Accelerating success.