

Ferry Salanto Senior Associate Director | Jakarta

The industrial market's overall performance up to H1 2018 still posed a tough situation with its total sales, representing only 32.7% of the total sales in 2017. The outlook for the second semester of 2018 might be good for certain industrial estates. However, the overall market performance will still be challenging, particularly in catching up with last year's achievement.

Forecast at a glance



Demand

We forecast that logistics, food, automotive and manufacturing sectors will remain as the leading generators of industrial demand. These sectors still dominate the overall number of enquiries for industrial land and will likely spur the overall demand for industrial land in the future. Some industrial estates reported that demand from those sectors will likely materialise over the rest of the year.



Supply

Karawang remains as the main industrial land supplier in the future, which will be heavily concentrated in the Karawang area, contributed by the existing and future industrial estates. Over the next three to four years, Subang will become another active region in supplying future industrial land stock, mainly due to its proximity to the future Patimbang port.



Land Price

Price will remain soft throughout 2018, amidst the current sluggish market. Price will likely be adjusted higher by 5% to 10% per annum over the next two or three years.

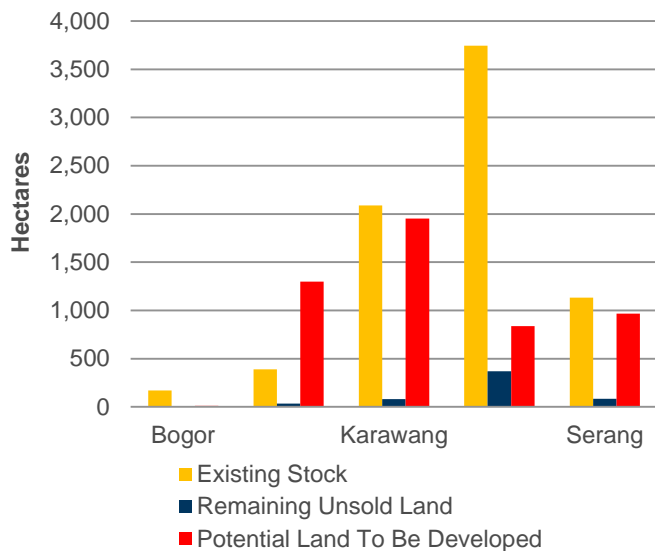
Land Supply

Future industrial land development will be heavily concentrated in Karawang, not only from the development of several new industrial estates within Trans Hexa Karawang (THK), which includes Karawang New Industry City, Artha Industrial Hill and other future estates within the THK consortium, but also from the existing industrial estates such as Suryacipta, KIIC and Kota Bukit Indah (Indotaisei and Besland Pertiwi). Meanwhile, GT Techpark at Karawang (Gajah Tunggal Group) decided not to sell or offer any land for sale, as their internal group of companies may use the land for future expansion. From the existing industrial estates, Karawang is expecting to see a total of around 464 hectares (gross area). This land stock will be delivered in stages.

The future Patimbang port in Subang continues to appeal to industrial developers to open new industrial estates. One existing industrial estate in Karawang indicated that they have secured around 2,000 hectares of land in Subang, as part of their expansion plan benefiting from the port operation. Another JV of local and big overseas groups has also been eyeing at expanding to Subang. It is also indicated that state-owned companies are collaborating to consider Subang as their future expansion.

Thus far, the expansion in Serang will be mainly contributed by two industrial estates, whilst the land expansion in Tangerang will also be contributed by the most active industrial estate, such as Millennium.

Industrial Land Stock Status in Some Active and Future Industrial Estates



Source: Colliers International Indonesia - Research

Land Sales Activity

Substantial land transactions were fairly limited to the total deal made by two industrial estates – Greenland International Industrial Centre (GIIC) and Artha Industrial Hill. These two estates made up about 60% of the total transactions (nearly 68 hectares) in the first semester of 2018. Nonetheless, it will be very challenging for the industrial market to catch up with the total sales figure registered last year. Thus far, the 68-ha deal recorded in the first six months this year only constituted 32.7% of the total sales in 2017. For the last few years, big deals were only produced by the same industrial estates, and therefore, expecting the amount of this year's transaction volume to be the same with that of last year is tough. It would need a total transaction of 140 hectares in the remainder of 2018 to offset last year's sales performance.

The GIIC reported a total sale of 22 hectares for two consecutive quarters, bolstering its position as the most active industrial estate in selling land. The food industry acquired around 20 hectares of land. Other than that, two hectares were sold to an auto-related company.

As a newly operating industrial estate in Karawang, Artha Industrial Hill (AIH) sold quite sizeable land plots to four companies, three of which are Korean. This comprised 5.1 hectares to Korean textile companies, 4.5 hectares to a Korean automotive company and 6.4 hectares to a Korean electric company. The total 19.1-ha sales in AIH this quarter was closed by one local drone and unmanned aerial vehicle manufacturer that bought 3.1 hectares.

Other than GIIC and AIH, sales for each industrial estate were relatively small in number. Modern Cikande booked fewer transactions than last quarter, totalling around 2.71 hectares comprising the expansion of a local garment industry with 2.46 hectares and a new local building material company taking around 2,500 sq m of land. Although this reflects a steady performance QOQ, the total sale of 6.26 hectares in the first semester was only 17.3% of total sales in 2017.

Bekasi Fajar (BFIE) reported a total of 1.71 hectares (lower than that in Q1 2018) from three transactions, including a 1.35-ha deal from a new local automotive company, 2,180 sq m from the expansion of a consumer packaging company from Japan and one new local industry taking around 1,420 sq m. Despite representing only 25% of the total sales in 2017, it is reported that sales in H1 2018 has yet to reach its peak, owing to the sluggish period during the long holiday in June. The management is expecting to see substantial amount of transactions that will potentially materialise in the second semester of this year.

Several logistics companies were reported to buy a total of 1.2 hectares of land in Jababeka, slightly smaller than last quarter's sales.

In Karawang, the new KNIC (Karawang New Industry City) concluded a single 1.14-ha transaction to a new Chinese heavy equipment company. For the last three consecutive quarters, KNIC has consistently booked land transactions, particularly benefiting from the expansion of Chinese companies, given its background as a Chinese-based company, China Fortune Land Development (CFLD).

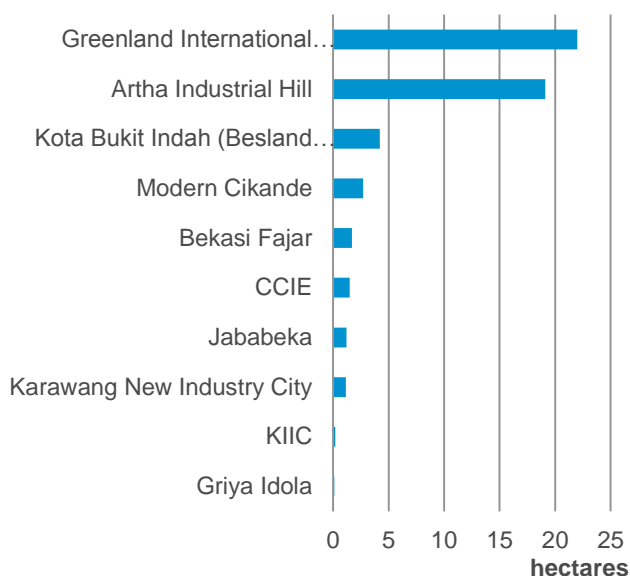
Still in Karawang, the total quarterly sales in KIIC dropped from 1.8 hectares last quarter to only 2,000 sq m. The land bought this quarter was for the expansion of an existing Japanese-based company in the plating and coating industry.

Sales transaction this quarter was closed by Griya Idola, which sold four SFB units (totalling to three buyers) for expansion purposes. Three local companies buying SFB this quarter came from the plastic moulding, panel and chemical industries.

On the other front, we saw an increasing leasing activity in Q2 from two industrial estates that specialises in land leasing, namely CCIE (Cibinong Centre Industrial Estate) and Kota Bukit Indah (run by Besland Pertiwi). CCIE closed a leasing deal with a local logistics company of 1.5 hectares. Meanwhile, Kota Bukit Indah confirmed two leasing deals for two units of SFB from a tenant that produces plastics and mattresses. The biggest leasing transactions were from tenants in the automotive and

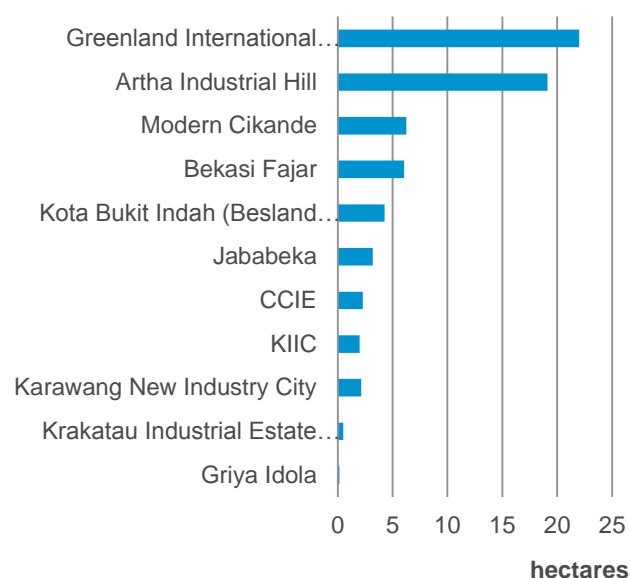
logistics sectors, taking around 3.2 hectares. The total leasing transaction recorded this quarter was the highest since the booming period in Q2 2012, although it did not reflect the overall market situation, since compared to sales, the leasing transaction was negligible in volume.

Land Absorption During Q2 2018



Source: Colliers International Indonesia - Research

Land Absorption During H1 2018

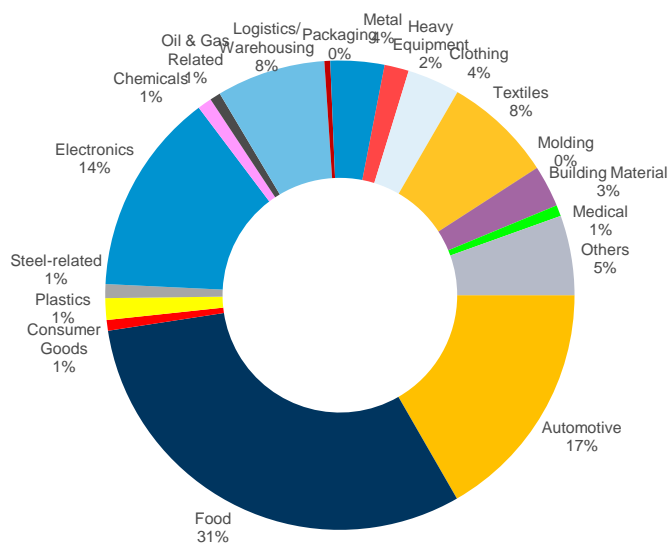


Source: Colliers International Indonesia - Research

Up to June 2018, the food industry still dominates and being the most widely expanding sector buying industrial land. This was mainly seen at GIIC, and some small transactions that occurred in Jababeka and Modern Cikande. The automotive sector, which took about 17% of the total transactions, concluded the first semester of 2018 with a total of about 11.35 hectares of land in six

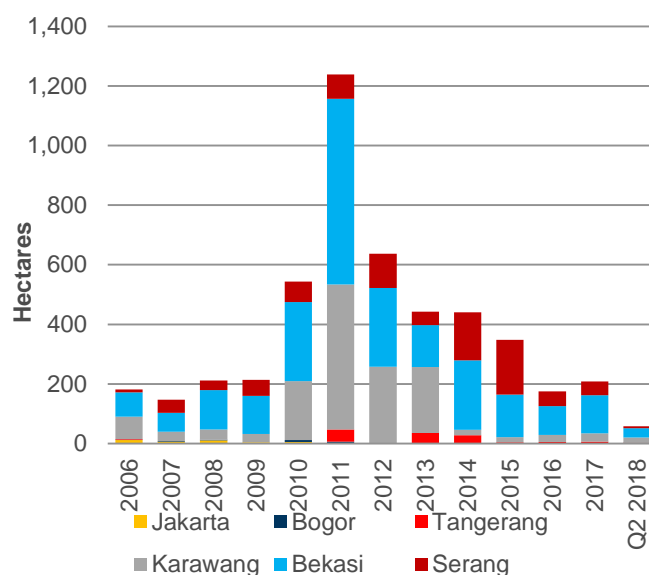
industrial estates including KIIC, KBI, BFIE, GIIC, AIH and Modern Cikande. Meanwhile, the electronic sector of 9.5 hectares was contributed by two companies in AIH.

Types of Active Industries During H1 2018



Source: Colliers International Indonesia - Research

Annual Industrial Land Absorption



Source: Colliers International Indonesia - Research



Land Price and Maintenance Costs

There was no change in land price during the quarter. The sales performance up to June 2018 was not enough to raise the confidence of industrial landlords to push higher prices this quarter. Looking at the current sluggish market, prices are unlikely to increase over the next semester, as industrial developers will take ultimate priority to consolidate internally during the slow period.

Some industrial developers revealed that price is one of the many factors that determine whether people will buy or not. Location is the next thing that buyers consider.

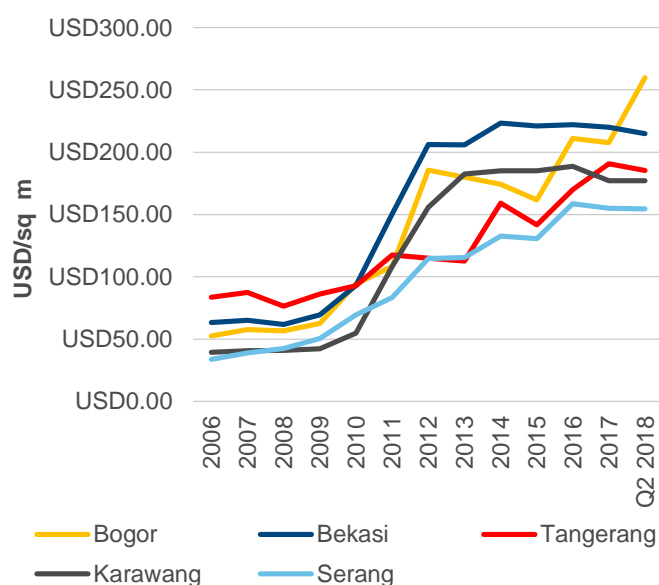
We do not see any indications in the two-most active regions, Bekasi or Karawang, in changing the offering price at the current level. In Serang, where one of the most consistent estates in selling is located and land price has continuously been adjusted, the overall land price has been stable QOQ.

Land price change in Tangerang may occur in certain estates with impressive sales. However, the overall land price might be stagnant in this region because most of the industrial estates are not active in selling. All in all, it is unlikely to see price change in the remainder of 2018.

Most industrial estates in Karawang start their land price at USD170/sq m, whilst prices in Bekasi are a bit higher starting from USD172 to USD229/sq m. The overall Tangerang area is at an average of USD185/sq, m but one new active industrial estate has already set a higher price than others, which is now at USD233/sq m.

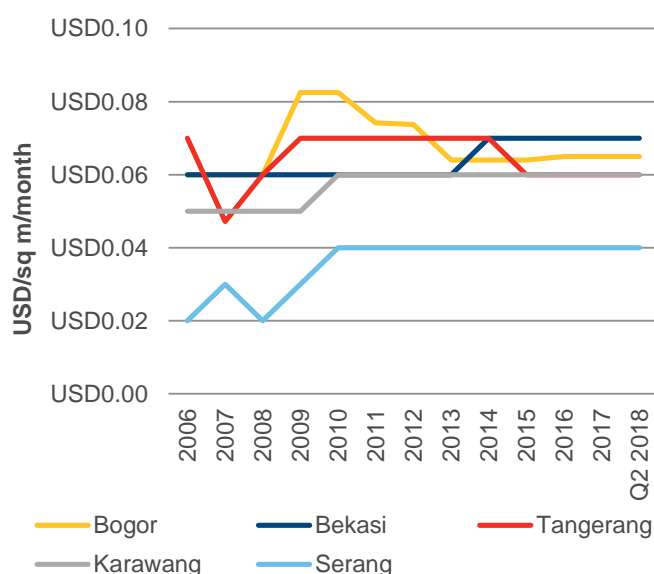
The maintenance tariff for industrial estates in the greater Jakarta area has been stagnant for several years. Tariff is generally quoted in US dollars, ranging from USD0.07 to 0.08/sq m/month in Bekasi, which is the highest compared with other regions. In Karawang, the tariff is a bit lower at USD0.06 to 0.07/sq m/month. The two active industrial estates in Serang set the maintenance tariff in rupiah, ranging from IDR650 to IDR650/sq m/month.

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	215.2	340.7	277.9	0.06	0.07	0.07
Bekasi	172.1	229.5	210.8	0.07	0.08	0.07
Tangerang	179.3	233.1	185.3	0.03	0.07	0.06
Karawang	170.0	185.0	177.0	0.06	0.10	0.07
Serang	143.4	165.7	154.6	0.04	0.05	0.04

Source: Colliers International Indonesia - Research

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