

Ferry Salanto Senior Associate Director | Jakarta

In the half of 2018, the total office demand in the CBD was equal with that in the same period in 2017. However, rents remain under pressure by unabsorbed spaces that have become available since 2017, coupled with large vacant spaces since early 2018. As such, there is bigger pressure on landlords, and this has created a tenant market situation.

Forecast at a glance



Demand

We look forward to a gradual increase in office leasing activities. We recorded more office enquiries in Q2 2018, which would likely be executed in the next three or six months. Nonetheless, such enquiries are dominated by office relocation, which should not affect our overall occupancy projection.



Supply

In Jakarta, around half-a-million square metres of office space (64% scheduled to be in the CBD) should become available for occupancy in the remainder of 2018. Furthermore, around 660,000 sq m of new office spaces are scheduled open between 2019 and 2020 (45% should be in the CBD).



Occupancy

Occupancy in the CBD is predicted to record a low 79% by the end of 2018. We then project it to rebound modestly to 82% in 2019. Fuelled by stronger economic projections and fairly low supply in 2020, we project occupancy to further rise to 85%. Occupancy should decline slightly outside the CBD, to 82% at the end of 2018. Due to the large amount of new supply in 2019, occupancy will likely moderately edge down to 81% but will probably regain strength to 84% in 2020, mainly because of a limited supply in that year.



Rents

We assume a 1% increase YOY in CBD office rents at the end of 2018. Fuelled by a more measured quantity of supply next year, average rents are set to increase by less than 1% at the end of 2018. Meanwhile, average rent outside the CBD should be relatively flat until the end of 2018, but it will likely climb considerably by 4% in 2019 and 8% in 2020.



Prices

The relatively small sales throughout 2018 should maintain the current office price until the end of the year. With the lack of new office supplies for sale, the CBD will likely see a moderate 5.5% increase in 2019, particularly because we still believe that the absorption of strata-title offices will probably not be significant next year. In 2020, office prices in the CBD should increase further by 6.8% due to the lack of supply and more active sales activities. The situation is also true outside the CBD, where prices are predicted to grow by 3.4% per annum in 2018 and 2019, and will likely continue to reach 4.6% in 2020.

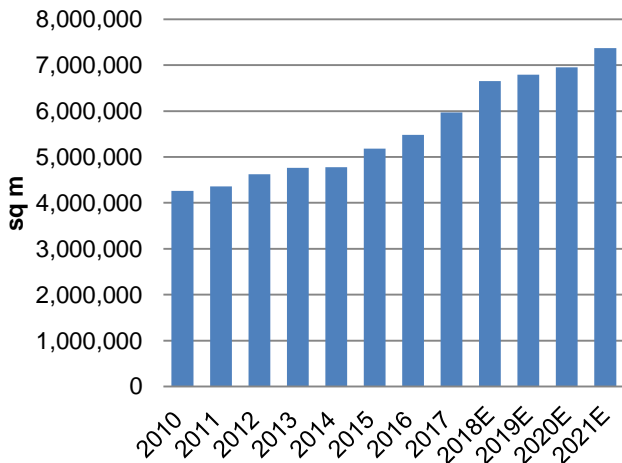
Central Business District

Office Spaces Offered for Lease

Supply

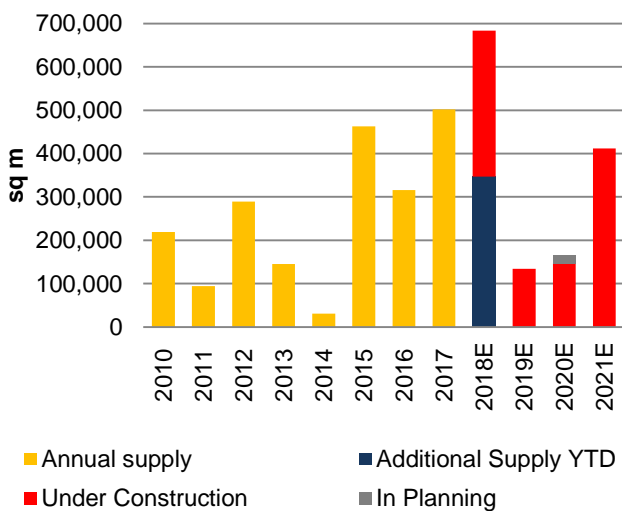
Four office buildings in the CBD officially opened in H1 2018, bringing a total of around 340,000 sq m or 50% of the total scheduled supply for 2018. Two buildings coming on stream in Q2 include The Tower (in Gatot Subroto) and Menara Astra (in Sudirman). Cumulative office supply in the CBD is now 6.32 million sq m, showing a 5.8% increase YTD.

Cumulative Office Supply



Source: Colliers International Indonesia - Research

Annual Office Supply



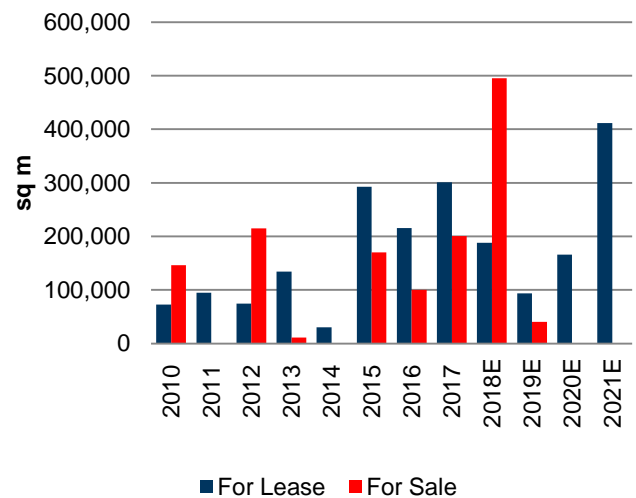
Source: Colliers International Indonesia - Research

Almost all (approximately 98%) of the scheduled office buildings in 2018-2021 have begun construction.

With the capital region of Jakarta's government allowing for high-plot ratio in certain business areas, more new office buildings are built with a total floor area of 80,000-100,000 sq m or even larger. These sizeable buildings contribute to the 5.5% annual supply growth from 2018 to 2021. The on-going MRT construction should allow the Sudirman submarket to further dominate the market. More future office projects are scheduled to be located here, despite the fact that this is already the largest submarket. Apart from the supply pipeline presented in the table, the market is further anticipating additional office buildings planned to be completed between 2022 and 2023.

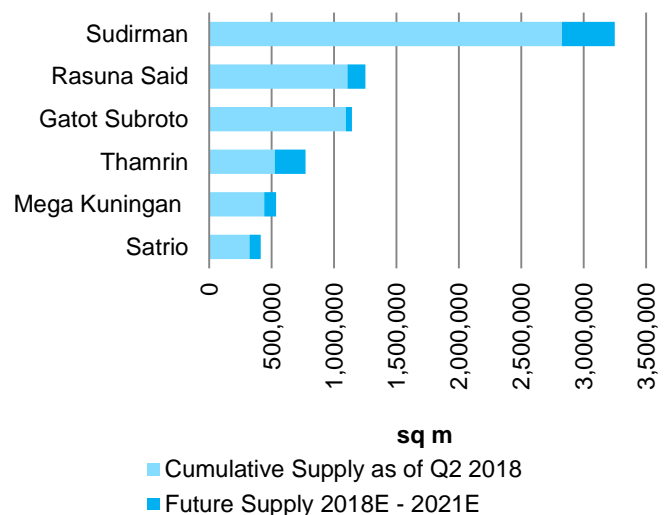
In general, developers consider the foundation of Indonesia's economy to be quite strong. They believe that the property industry will probably grow in line with Indonesia's economic projections, which is expected to be stable and improve in the long term. We still see the desire of developers to build office buildings particularly in well-established business districts, such as in the CBD. This is particularly true for big, overseas developers that are still looking for a good location to build office buildings in Jakarta.

Annual Office Supply Based on Marketing Scheme



Source: Colliers International Indonesia - Research

Cumulative Office Supply Based on Area



Source: Colliers International Indonesia - Research

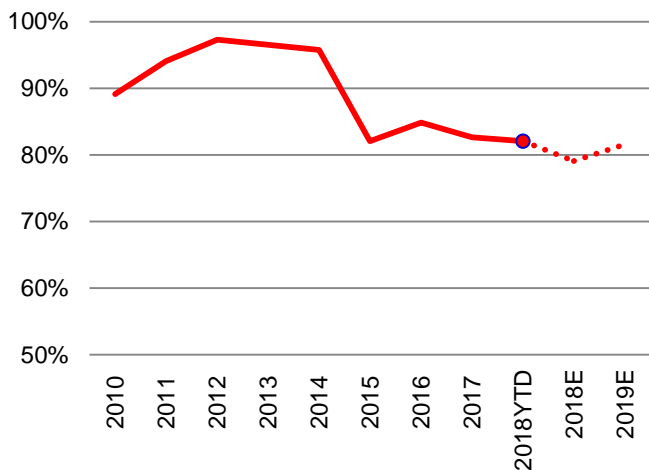
SUPPLY PIPELINE

OFFICE BUILDING	LOCATION	SGA (SQ M)	MARKETING SCHEME	STATUS DEVELOPMENT
2018				
Revenue Tower	Sudirman	40,000	For Lease	Under Construction
Sequis Tower	Sudirman	78,000	For Lease	Under Construction
Sopo Del Tower B	Mega Kuningan	24,300	For Sale	Under Construction
Sudirman 7.8 Tower 1	Sudirman	52,000	For Sale	Under Construction
World Trade Center III	Sudirman	70,000	For Lease	Under Construction
World Capital Tower	Mega Kuningan	72,000	For Sale	Under Construction
2019				
Lippo Thamrin Office Tower	MH Thamrin	16,500	For Sale	Under Construction
T Tower	Gatot Subroto	24,000	For Sale	Under Construction
Millenium Centennial Tower	Sudirman	93,588	For Lease	Under Construction
2020				
Gayanti City	Gatot Subroto	25,000	For Lease	Under Construction
Thamrin Nine	MH Thamrin	97,500	For Lease	Under Construction
Social Security Tower	HR Rasuna Said	23,500	For Lease	Under Construction
Redevelopment Graha Binakarsa	HR Rasuna Said	20,000	For Lease	In Planning
2021				
Chitaland	Satrio	90,000	For Lease	Under Construction
Daswin Tower	HR Rasuna Said	100,000	For Lease	Under Construction
Indonesia Satu North Tower	MH Thamrin	43,000	For Lease	Under Construction
Indonesia Satu South Tower	MH Thamrin	88,500	For Lease	Under Construction
Jakarta Office Tower by MORI	Sudirman	90,000	For Lease	Under Construction

Source: Colliers International Indonesia - Research

Occupancy → reschedule completion, occupancy is expected to rebound in 2019 - 2020

Average Occupancy



Source: Colliers International Indonesia - Research

The large supply scheduled adds more pressure on occupancy levels, particularly as additional office projects are scheduled to be completed in H2 2018 that will likely bring occupancy rates to their lowest level at the end of 2018. In Q2, however, occupancy rates increased marginally by 1% to 82.1%, due to the improved performance of office buildings that began operation in 2016-2017. Additionally, office buildings that began operation in 2018 also helped lift the overall occupancy in the CBD, due to their good absorption during their first year of operation.

On the demand side, businesses such as mining, and oil and gas are likely to expand again, but this has yet to be seen in leasing activity. On the other hand, the banking industry has started to change its business model with the growth in financial technology (FinTech) that will likely see office footprints in this industry decline in the future.

Occupancy Rates by Building Grade

	2017	Q1 2018	Q2 2018	CHANGE	
				QOQ	HOH
Premium	76.0%	68.7%	73.9%	5.2%	-2.1%
Grade A	78.5%	77.8%	79.0%	1.1%	0.5%
Grade B	91.7%	91.9%	91.5%	-0.5%	-0.3%
Grade C	86.7%	86.2%	85.8%	-0.4%	-0.8%

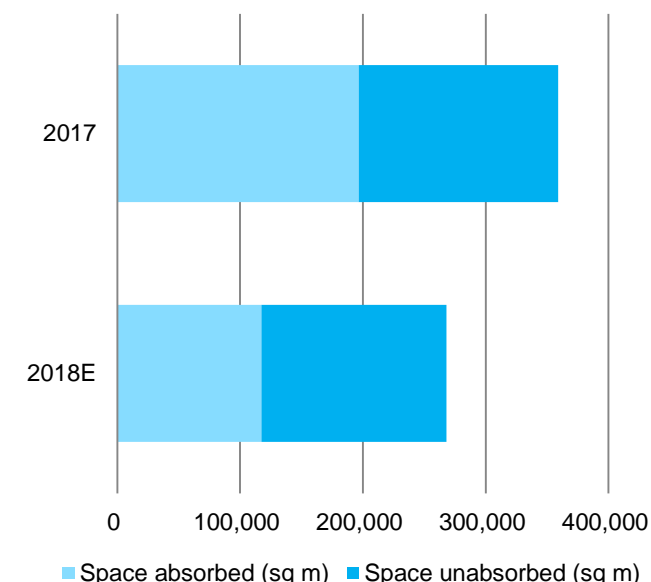
Source: Colliers International Indonesia - Research

Occupancy Rates by Sub Market

	2017	Q1 2018	Q2 2018	CHANGE	
				QOQ	HOH
Thamrin	91.3%	91.6%	92.3%	0.7%	1.0%
Sudirman	85.3%	80.0%	82.1%	2.0%	-3.3%
Rasuna Said	86.2%	89.3%	88.5%	-0.8%	2.2%
Mega Kuningan	71.5%	68.5%	71.0%	2.5%	-0.5%
Gatot Subroto	77.1%	76.7%	76.9%	0.2%	-0.2%
Satrio	68.1%	76.0%	76.0%	0.0%	7.9%

Source: Colliers International Indonesia - Research

Pre-Committed Absorption of Office Spaces for Lease



Source: Colliers International Indonesia - Research

Co-working spaces will likely continue expanding in the future, which might create a challenge for conventional office space operators. In some situations, lessors might opt to rent spaces from co-working space operators rather than go directly to the developers/landlords. This model is also attractive for start-ups and begins to draw in enterprising tenant or, to some extent, multinational companies (MNCs) as potential tenants. This is because such companies are seeking increased flexibility in the leasing of office spaces, in which they are able to quickly reduce or increase their office space.

Average Asking Rents

Our rental calculation is based on available space, therefore more vacant spaces in expensive buildings could cause an increase in average rent. In Q1 2018, the average rent increased due to the operation of new premium-grade office buildings. In Q2, several buildings have responded with the current tenant market situation; some premium buildings have already lowered their asking rents that brought the average rent in the CBD to fall by almost 7% to an average of IDR301,085/sq m/month. The tenant market situation added pressure for landlords to lower rent by 10-40%, as compared with that in Q1 2018.

Average Asking Rents (in IDR/sq m /month) by Building Grade

	2017	Q1 2018	Q2 2018	CHANGE	
				QOQ	HOH
Premium	449,283	459,110	400,825	-12.7%	-10.8%
Grade A	280,854	311,055	299,566	-3.7%	6.7%
Grade B	234,746	226,399	230,330	1.7%	-1.9%
Grade C	177,343	175,445	184,533	5.2%	4.1%

Source: Colliers International Indonesia - Research

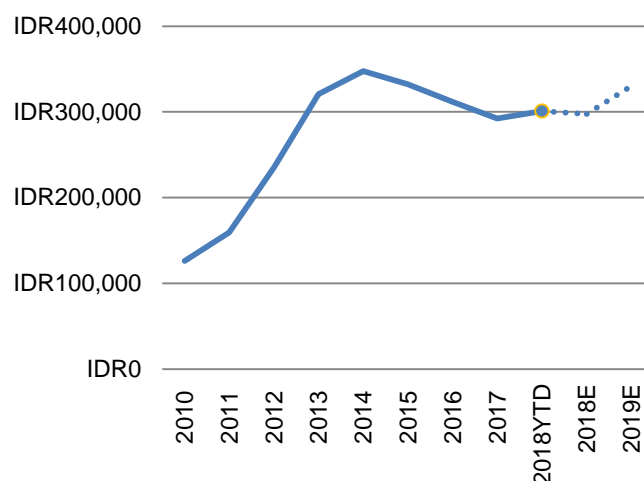
Average Asking Rents (in IDR/sq m /month) by Sub Market

	2017	Q1 2018	Q2 2018	CHANGE	
				QOQ	HOH
Sudirman	310,964	355,228	314,690	-11.4%	1.2%
Thamrin	291,535	275,499	287,013	5.8%	-1.6%
Rasuna Said	246,696	250,929	246,644	-1.7%	0.0%
Gatot Subroto	338,600	349,096	339,853	-3.0%	0.4%
Satrio	234,679	268,810	255,894	-12.7%	9.0%
Mega Kuningan	252,665	255,862	256,479	-1.2%	1.5%

Source: Colliers International Indonesia - Research

Developers should be more accommodating in negotiation rents with perspective tenants. They could consider providing additional fit-out allowance and show more flexibility in the contract's terms and conditions, such as providing an option to reduce space, to terminate or to have holdover rights. Several potential tenants require their capital expenditure to be paid by the landlords, with the lessor then paying by instalment during the lease period. In addition, there is also a holdover right allowing the tenants to still be able to occupy the spaces even though the lease has expired as long as the landlord continues to receive rental payments.

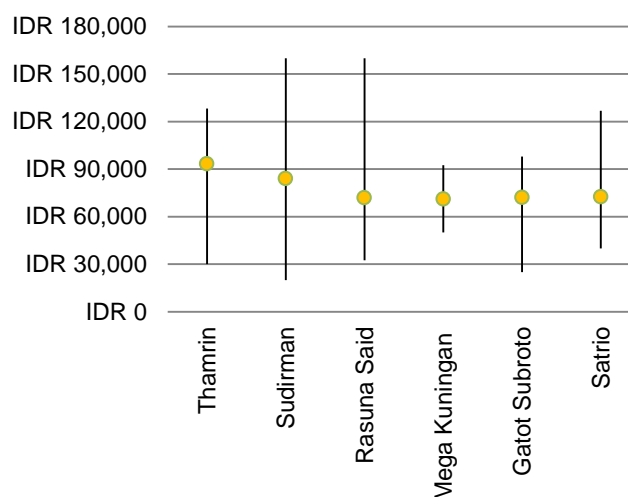
Average Asking Base Rents



Source: Colliers International Indonesia - Research

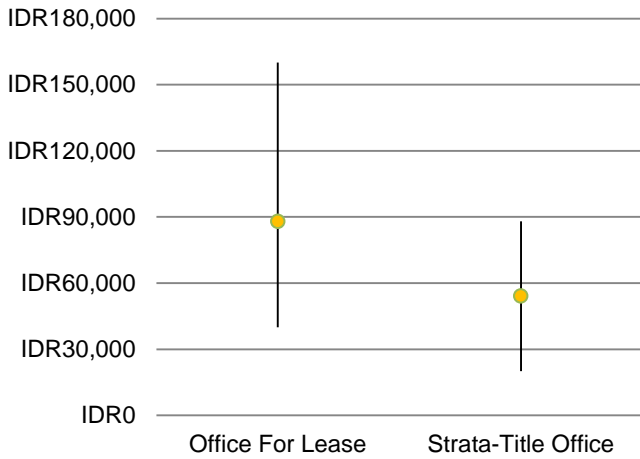
Service Charges

Service Charges by Sub Market



Source: Colliers International Indonesia - Research

Service Charges by Marketing Scheme

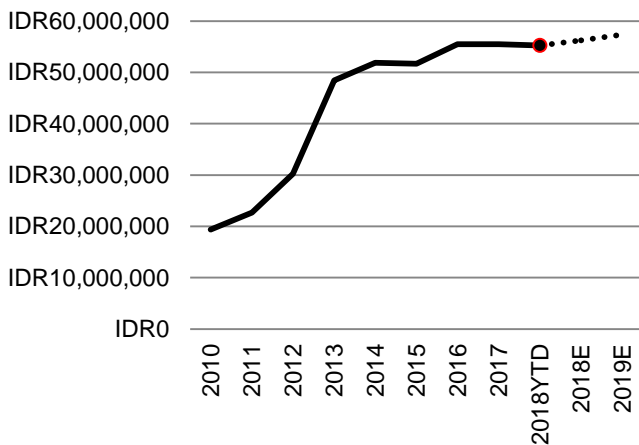


Source: Colliers International Indonesia - Research

The average service charges were still relatively stable at IDR79,231/sq m/month for all classes of office buildings in the CBD. The average service charge of new office buildings coming online in 2017 and 2018 was around IDR60,000/sq m/month. Some external factors such as inflation, electricity tariffs and minimum wages are set to determine our forecast at the end of 2018 to increase by 3-5%.

Strata-title

Average Asking Price



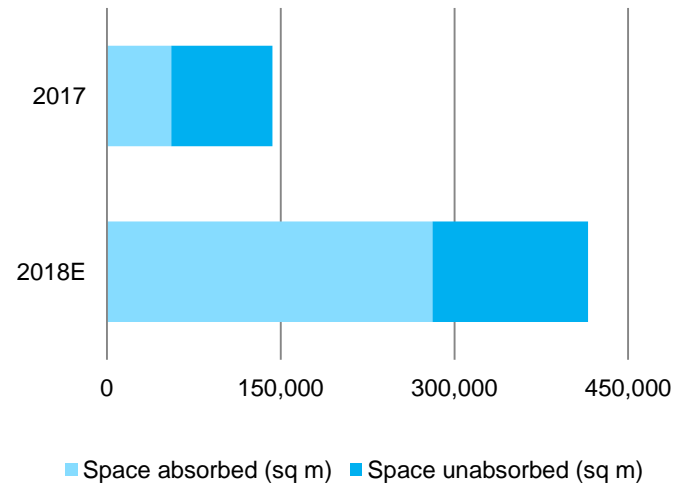
Source: Colliers International Indonesia - Research

Thus far, strata-title office spaces for sale composed about 26% of the total office supply in the CBD. The additional 415,000 sq m this year should bring cumulative supply to 1.78 million sq m. Supply will likely decelerate in the coming years, in line with the relatively slower take-up.

We estimate the take-up rate to grow by 5% by the end of 2018. We expect potential buyers of strata-title office buildings in the CBD to be mainly end-users.

Office spaces in the CBD cost IDR40 million to IDR80 million/sq m, with an average of IDR57.5 million/sq m, as landlords are likely to maintain their current selling prices at least until the end of 2018.

Pre-Committed Absorption of Strata-title Office Buildings in 2017 – 2018



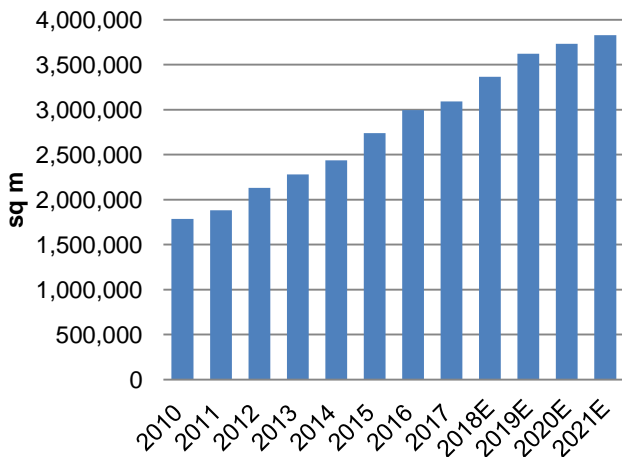
Source: Colliers International Indonesia – Research

We believe that landlords will probably not immediately reduce prices in the short term, because they still have the option to offer the property for rent at a rental rate that is lower than the market.

Outside the CBD

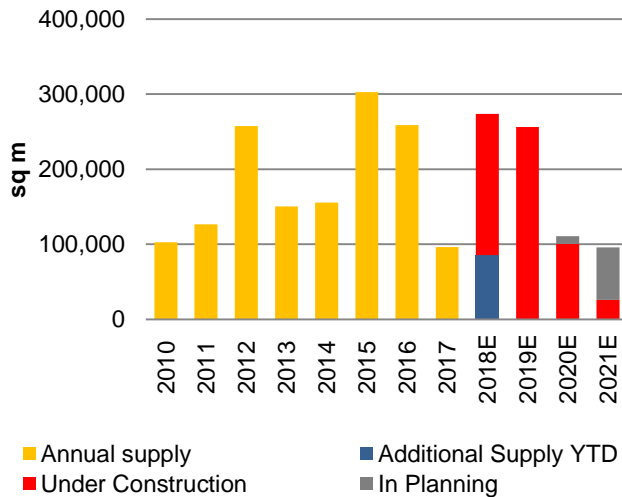
Office Spaces Offered for Lease Supply

Cumulative Office Supply



Source: Colliers International Indonesia - Research

Annual Office Supply



Source: Colliers International Indonesia - Research

Ciputra International Tower 3 and Tamansari Parama buildings officially began operation this quarter, bringing additional supply of around 45,000 sq m. There are four office buildings that opened within the last six months, with cumulative supply reaching 3.2 million sq m in Q2 2018. The second half of 2018 should have another eight buildings with nearly 190,000 sq m.

South and Central Jakarta will likely still be the most active areas in contributing new office supplies, around

62% of the total future supply outside the CBD from 2018 to 2021.

In TB Simatupang, after 18 months without any new buildings, there should be at least six new office structures that will likely be completed between 2018 and 2021. Based on the current construction progress, The Sima, Zuria and Arkadia Tower G should become operational in 2018-2019. This business corridor will likely further grow along with the current infrastructure developments, such as the MRT and the Toll Road Depok-Antasari.

Annual Supply Based on Marketing Scheme



Source: Colliers International Indonesia - Research

Cumulative Supply Based on Area



*excluding TB Simatupang

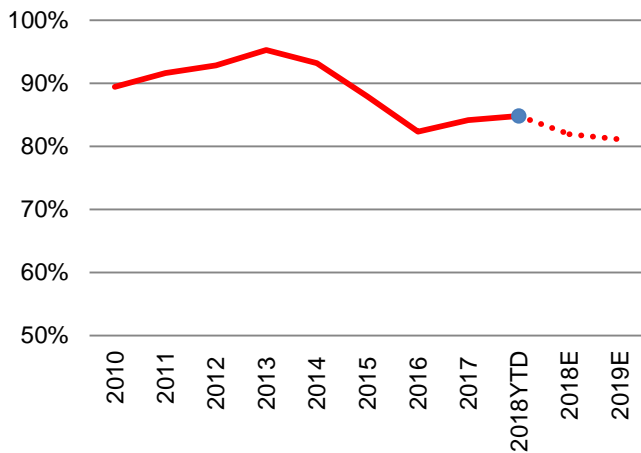
Source: Colliers International Indonesia - Research

SUPPLY PIPELINE					
OFFICE BUILDING	LOCATION	AREA	SGA (SQ M)	MARKETING SCHEME	STATUS DEVELOPMENT
2018					
St Moritz Office Tower	Puri Indah	West Jakarta	30,000	For Sale	Under Construction
SOHO Pancoran	Pancoran	South Jakarta	30,000	For Sale	Under Construction
The Sima	TB Simatupang	South Jakarta	60,000	For Lease	Under Construction
Arcade Business Center	Pantai Indah Kapuk	North Jakarta	22,000	For Lease	Under Construction
Zuria	TB Simatupang	South Jakarta	6,584	For Lease	Under Construction
Robina Tower	Tendean	South Jakarta	9,600	For Lease	Under Construction
Wisma Kartika	Grogol	West Jakarta	11,770	For Lease	Under Construction
One Belpark Office	Pondok Labu	South Jakarta	17,800	For Lease	Under Construction
2019					
Jakarta Box Tower	Kebon Sirih	Central Jakarta	36,000	For Lease	Under Construction
The Unity	Casablanca	South Jakarta	80,000	For Lease	Under Construction
Arkadia Tower G	TB Simatupang	South Jakarta	30,000	For Lease	Under Construction
Agung Sedayu Office Tower	Pantai Indah Kapuk	North Jakarta	50,000	For Lease	Under Construction
MNC Tower II	Kebon Sirih	Central Jakarta	60,000	For Lease	In Planning
2020					
Citra Tower 1	Kemayoran	Central Jakarta	40,000	For Sale	Under Construction
One Tower	Kemayoran	Central Jakarta	21,400	For Sale	Under Construction
Beltway Office Park Tower 4	TB Simatupang	South Jakarta	10,000	For Lease	In Planning
The Manhattan Square Tower 2	TB Simatupang	South Jakarta	39,375	For Lease	In Planning
2021					
Wisma Barito Pacific 2	Slipi	West Jakarta	26,000	For Lease	Under Construction
Southgate Office Tower	Tanjung Barat	South Jakarta	30,000	For Lease	In Planning
MTH 27 Office Suite	Cawang	South Jakarta	25,000	For Lease	In Planning
Ciputra International Office Tower 2	Cengkareng	West Jakarta	20,000	For Lease	In Planning

Source: Colliers International Indonesia - Research

Occupancy

Average Occupancy Rates



Source: Colliers International Indonesia - Research

Since Q1 2017, the average occupancy rate of office buildings outside the CBD increased 2.9% to 84.8%.

Average Occupancy Rates by Building Grade

	2017	Q1 2018	Q2 2018	CHANGE	
				QOQ	HOH
Grade A	72.7%	72.0%	74.2%	2.2%	1.5%
Grade B	78.3%	79.5%	80.3%	0.8%	2.0%
Grade C	92.7%	92.5%	92.2%	-0.3%	-0.5%

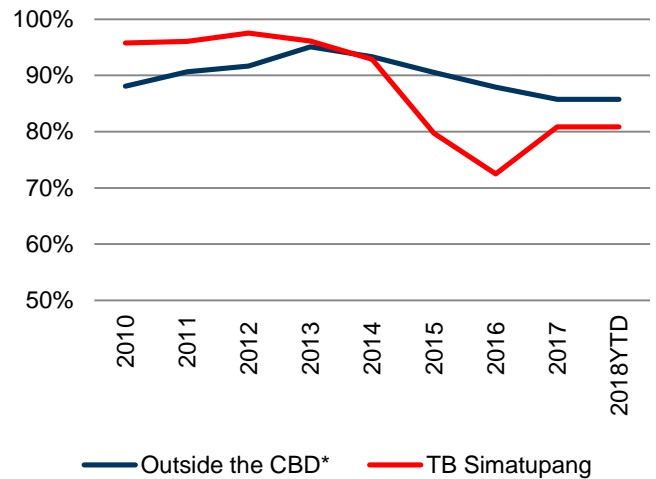
Source: Colliers International Indonesia - Research

Average Occupancy Rates by Region

	2017	Q1 2018	Q2 2018	CHANGE	
				QOQ	HOH
North Jakarta	81.7%	77.5%	77.2%	-0.3%	-4.5%
Central Jakarta	91.7%	92.5%	91.2%	-1.3%	-0.5%
West Jakarta	82.0%	80.5%	81.6%	1.0%	-0.4%
East Jakarta	100.0%	100.0%	100.0%	0.0%	0.0%
South Jakarta (excl. TB Simatupang)	87.9%	87.9%	89.1%	1.2%	1.2%
TB Simatupang (excl. South Jakarta)	77.3%	80.1%	80.8%	0.8%	3.5%

Source: Colliers International Indonesia - Research

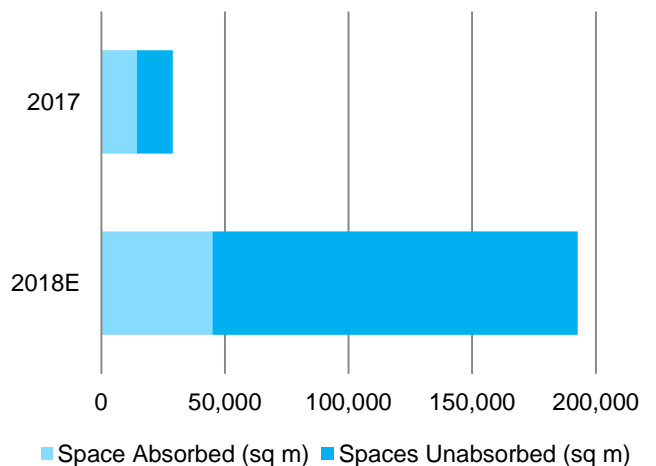
Average Occupancy Rates



*exclude TB Simatupang

Source: Colliers International Indonesia - Research

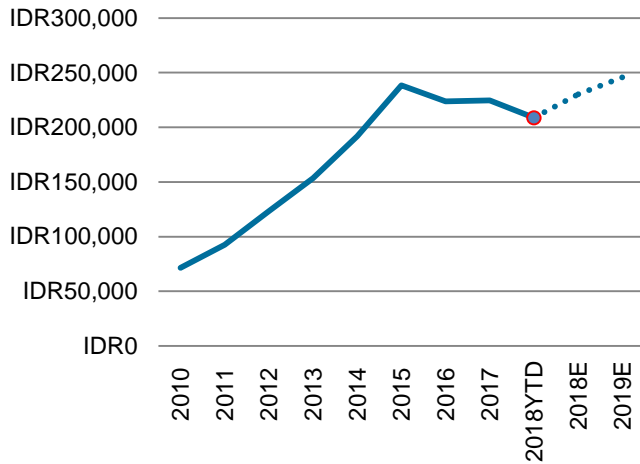
Pre-Committed Absorption Office Supply for Lease in 2017 – 2018E



Source: Colliers International Indonesia - Research

Rents

Average Asking Base Rents



Source: Colliers International Indonesia - Research

The average rental rates of office buildings outside the CBD also experienced a downward trend both in Q1 and Q2 2018 to IDR208,679/sq m/month, down 7.1% compared with that in 2017. Two out of four office buildings that began operation in 2018 offer much lower rents than current market prices.

Whilst all regions showed a declining trend from Q4 2017 to Q1 2018, new office buildings in Q2 2018 led to an increase in rent in West and Central Jakarta to grow by 5% and 10%, respectively.

Office rent in TB Simatupang continues to be depressed by the influx of new office buildings scheduled to come on stream in the remaining months of 2018. In response to the current market situation, these future office buildings have introduced rent tariff that is slightly below the average market rate. As such, we anticipate a declining rate by 2-3% YOY at the end of 2018.

Average Asking Rents by Building Grade

	2017	Q1 2018	Q2 2018	CHANGE	
				QOQ	HOH
Grade A	283,353	296,108	283,054	-4.4%	-0.1%
Grade B	219,720	218,054	211,081	-3.2%	-3.9%
Grade C	141,140	142,829	136,909	-4.1%	-3.0%

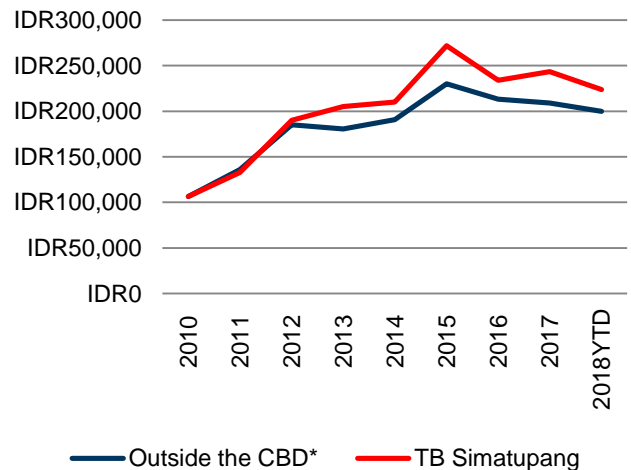
Source: Colliers International Indonesia - Research

Average Asking Rents by Region

	2017	Q1 2018	Q2 2018	CHANGE	
				QOQ	HOH
North Jakarta	223,938	212,600	211,556	-0.5%	-5.5%
Central Jakarta	140,426	139,500	153,730	10.2%	9.5%
West Jakarta	198,163	193,253	202,169	4.6%	2.0%
East Jakarta	90,250	82,286	82,286	0.0%	-8.8%
South Jakarta (excl. TB Simatupang)	237,960	238,743	218,000	-8.7%	-8.4%
TB Simatupang (excl. South Jakarta)	243,270	241,471	223,803	-7.3%	-8.0%

Source: Colliers International Indonesia - Research

Outside the CBD Asking Base Rents by Area

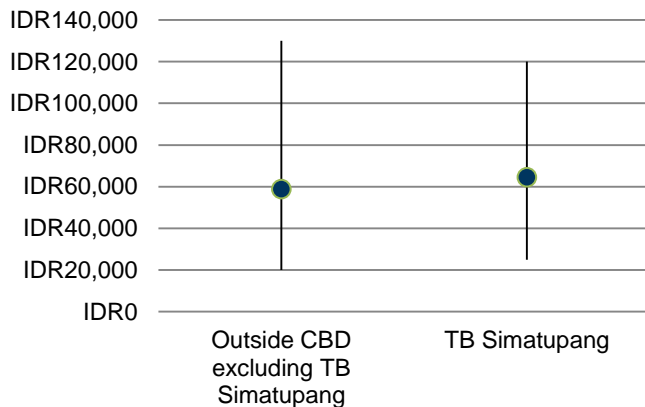


*exclude TB Simatupang

Source: Colliers International Indonesia - Research

Service Charges

Service Charges



Source: Colliers International Indonesia - Research

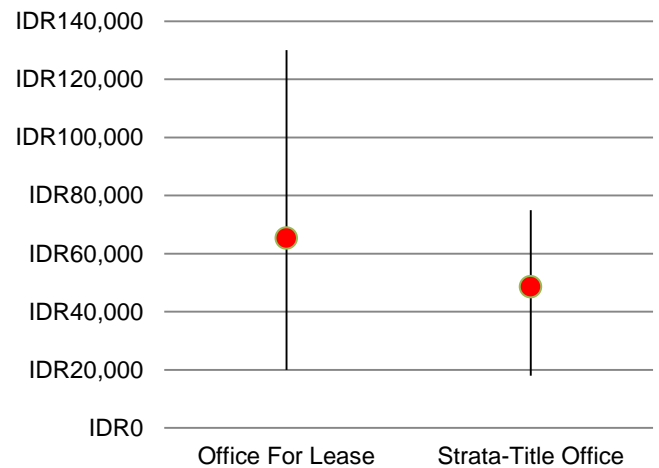
Newly operating office buildings in 2018 led the increase in average service charges in H1 2018 by 2.6% to IDR60,550/sq m/month. We still expect to see around 5% increase by the end of 2018.

Average Service Charges by Region

	2017	Q1 2018	Q2 2018	CHANGE	
				QOQ	HOH
North Jakarta	54,084	54,882	56,713	3.3%	4.9%
Central Jakarta	62,893	63,865	65,691	2.9%	4.4%
West Jakarta	55,496	55,723	57,515	3.2%	3.6%
East Jakarta	43,036	48,734	48,734	0.0%	13.2%
South Jakarta (excl. TB Simatupang)	55,907	56,652	57,278	1.1%	2.5%
TB Simatupang (excl. South Jakarta)	63,308	63,308	64,557	2.0%	2.0%

Source: Colliers International Indonesia - Research

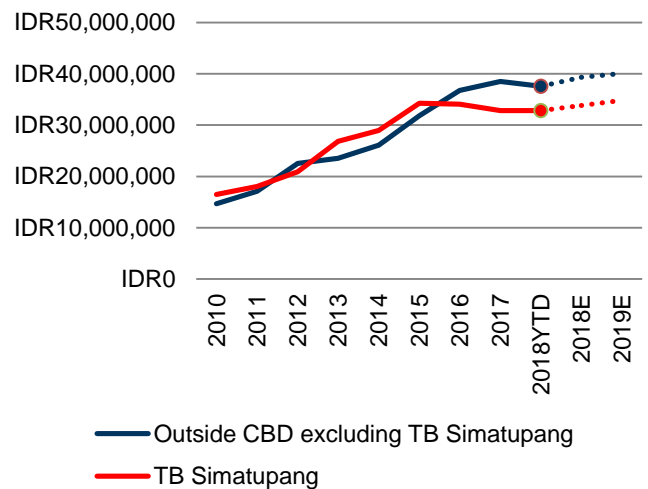
Service Charges by Marketing Scheme



Source: Colliers International Indonesia - Research

Strata-title

Average Asking Prices



Source: Colliers International Indonesia - Research

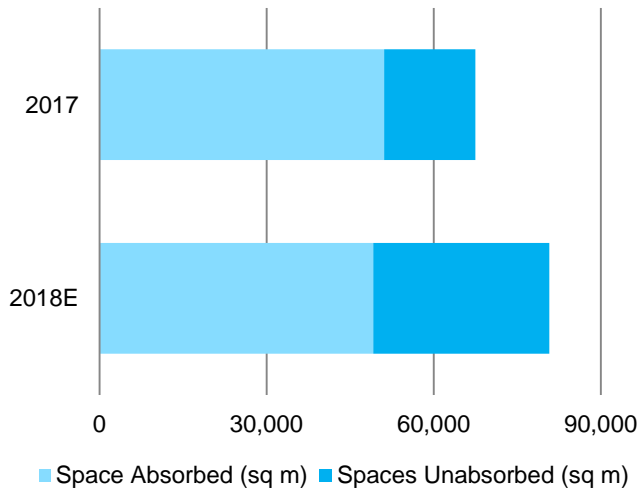
The office market outside the CBD will probably only witness an addition of 90,000 sq m space to the cumulative supply of strata-title offices, which should be recorded at 975,000 sq m by the end of 2018.

Until the end of Q2 2018, the take-up rate of office supplies for sale only grew 2.1%, compared with that in Q4 2017. In H2 2018, we expect the take-up rate to grow 2.5-3.0% to reach 70% by the end of 2018.

As of Q2 2018, the average selling price of strata-title offices outside the CBD (excluding TB Simatupang) was around IDR37 million/sq m. Due to slow absorption in strata-title offices in H1 2018, prices will likely remain

stable until the end of 2018. Meanwhile, price in TB Simatupang is set to be flat at IDR32.8 million/sq m in H2 2018.

Pre-Committed Absorption of Strata-title Office Building in 2017 – 2018E



Source: Colliers International Indonesia - Research

For more information:

Ferry Salanto

Senior Associate Director | Jakarta

+62 21 3043 6730

ferry.salanto@colliers.com

Contributors:

Eko Arfianto

Senior Manager | Research

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