

# JAKARTA | OFFICE

## Office Sector

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### A mild rise in leasing activities.

Intense enquiries for office spaces primarily coming from IT-based companies (including online businesses), shipping, consumer goods and banking highlighted this quarter's office market. Nevertheless, the pressure on rental costs for landlords still continues in the tenant market. Tenants acquiring large footprints are taking advantage of low rents, whilst a vast number of new ventures, including start-up companies, are emerging.

### Forecast at a glance



#### Demand

Tenants are flooded with abundant office spaces as a result of the continuing influx of new office buildings. This provides opportunities for tenants to occupy a new building, since the rent is competitive when compared to older buildings. Furthermore, for efficiency reasons and due to budget constraints, more tenants are becoming very keen to moving into second-hand but fitted-out spaces left by previous tenants. Such situation will likely to continue in 2018.



#### Supply

Jakarta expects to see around 600,000 sq m of future supply at the remainder of 2017, 75% of which is located in the CBD area. The projected additional supply will bring total office spaces in the CBD to 6 million sq m by the end of 2017. Furthermore, we estimate around 1.5 million sq m of additional office spaces to enter the Jakarta market in 2018-2020, of which 60% is contributed by office buildings in the CBD.



#### Vacancy Rate

Despite the expectation of strengthening demand, a large future supply will add more pressure to occupancy performance. We forecast vacancy to be higher than 20% in the CBD in 2017-2020. Conversely, average vacancy rate outside the CBD is predicted to be slightly lower, given a relatively small future supply in 2018-2020.



#### Rent

The current large supply, particularly in 2017, will hit rental tariff. We estimate a drop of 10% YOY in the CBD by the end of 2017, and less than 5% outside the CBD.



#### Price

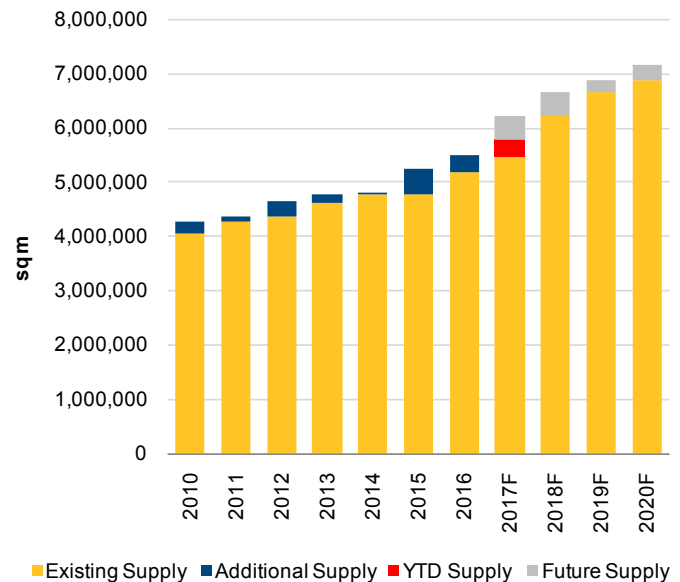
Around 40% of the total office spaces for sale in 2017-2018 remain unsold. Accordingly, price stood at an average of IDR56.6 million/sq m in the CBD and IDR36.4 million/sq m in other non-prime areas. Prices are projected to increase mildly by 2% next year, given a substantial number of spaces available.

## CBD

### Office Spaces Offered For Lease

#### Supply

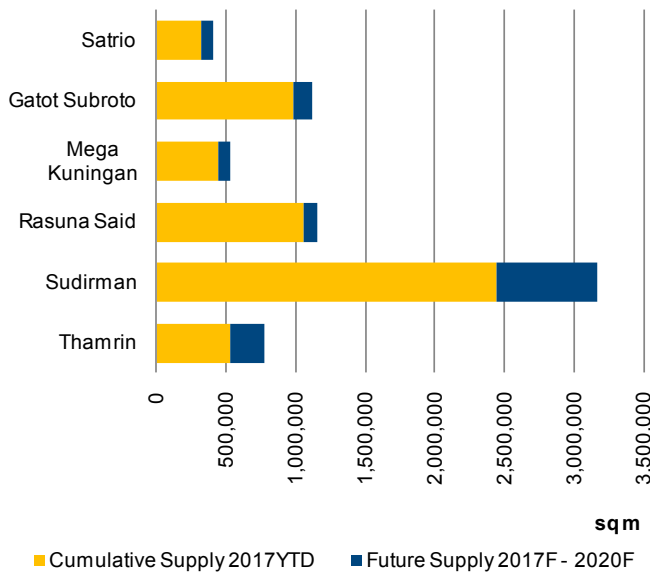
#### Office Cumulative Supply



Source: Colliers International Indonesia - Research

In Q3 2017, Telkom Landmark Tower 2 officially became a newly operating office building in the CBD. Together with five office buildings that previously began operation in H1 2017, Telkom Landmark Tower 2 brought the cumulative supply in the CBD area to 5.78 million sq m. Afterwards, we estimate around 450,000 sq m of future office supply to come in the market in the remainder of 2017, contributed by six office buildings. These 12 office buildings will drive the projected cumulative supply to reach 6 million sq m by the end of 2017, up 13% YOY. The total office supply in the CBD is expected to reach 7 million sq m within the next three years.

### Office Cumulative Supply Based on Area



Source: Colliers International Indonesia - Research

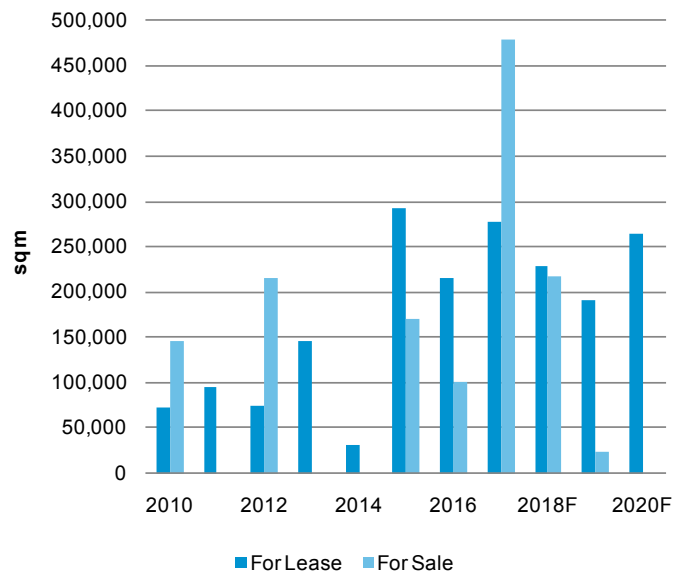
Apart from office buildings already currently under construction, several future office building projects seem to commence construction. In Sudirman, Mori Building has announced to start constructing a 59-floor office tower. The Jakarta Office Tower Project (tentative name for this project) will become Mori Building's first undertaking in Southeast Asia. Meanwhile, Wisma Sudirman shut down its operations in early 2017 (currently being demolished) and will be replaced with newer buildings within a mixed-use complex. Still in the same corridor, another office project called Sudirman 7.8 will start building the first tower within Nugra Santana office complex. This complex will comprise of three towers. The existing building will soon be demolished and be replaced by the third tower.

Apart from the SSI (Surya Semesta Internusa) project, there will be at least two future office projects in Jalan Rasuna Said. Besides the hotel and apartment towers within the St Regis complex, Rajawali Group will also build an office building, BCA Gold Plus, which shall be designed following international standards. The other project is a 64-floor office tower that is located at the corner of Jalan Rasuna Said and Casablanca, a joint operation by a local company (Gesit Indonesia) and foreign developer (Mitsubishi).

In Gatot Subroto, as the first tower is about to meet completion, the Mangkuluhur Tower 2 within Mangkuluhur City seems to be ready to begin construction. This will also become the other high-rise office building, with estimated height reaching 80 floors. The owner of the Mangkuluhur City project will also begin constructing another mixed-used project called Gayanti City, located in Jalan Jenderal Gatot Subroto.

Besides the above-mentioned office projects, we also monitor some potential contributors for future office supplies in the CBD, such as Tower Two at The City Center and Icon Tower (both in Sudirman) as well as Tower 2 at Ciputra World Jakarta 1 (located in Jalan Prof. Dr. Satrio). Intiland is also developing their mixed-use project at Waduk Melati, Central Jakarta. It is planned as an office tower to be constructed during the second phase within a mixed-use project sitting on a 3.2-hectare land.

### Office Annual Supply Based on Marketing Scheme



Source: Colliers International Indonesia - Research

New Supply Pipeline				
OFFICE BUILDING PROJECT	LOCATION	SGA (SQ M)	MARKETING SCHEME	DEVELOPMENT STATUS
<b>2017</b>				
Menara Palma 2	Rasuna Said	50,000	For Lease	Under Construction
The Tower	Gatot Subroto	56,492	For Sale	Under Construction
PCPD Tower	Sudirman	90,500	For Lease	Under Construction
Prosperity Tower (District 8 complex)	Sudirman	71,545	For Sale	Under Construction
Treasury Tower (District 8 complex)	Sudirman	139,000	For Sale	Under Construction
Revenue Tower (District 8 complex)	SCBD, Sudirman	40,000	For Lease	Under Construction
<b>2018</b>				
Mangkuluhur Tower	Gatot Subroto	53,000	For Lease & Sale	Under Construction
Lippo Thamrin Office Tower	Thamrin	16,500	For Sale	Under Construction
Sequis Tower	Sudirman	78,000	For Lease	Under Construction
Sudirman 7.8 (Tower 1)	Sudirman	52,000	For Sale	Under Construction
Astra Tower	Sudirman	80,000	For Lease	Under Construction
World Capital Tower	Mega Kuningan	72,000	For Lease & Sale	Under Construction
World Trade Center 3	Sudirman	70,000	For Lease	Under Construction
Sopo Del Tower B	Mega Kuningan	24,300	For Sale	Under Construction
<b>2019</b>				
T Tower	Gatot Subroto	24,000	For Lease & Sale	Under Construction
Thamrin Nine	Thamrin	97,500	For Lease	Under Construction
Millenium Centennial Tower	Sudirman	93,588	For Lease	Under Construction
<b>2020</b>				
Indonesia Satu North Tower	Thamrin	43,000	For Lease	Under Construction
Indonesia Satu South Tower	Thamrin	88,500	For Lease	Under Construction
Chitaland	Satrio	90,000	For Lease	Under Construction
Social Security Tower	Rasuna Said	23,500	For Lease	Under Construction
Graha Binakarsa (redevelopment)	Rasuna Said	20,000	For Lease	In Planning

Source: Colliers International Indonesia - Research

## Occupancy

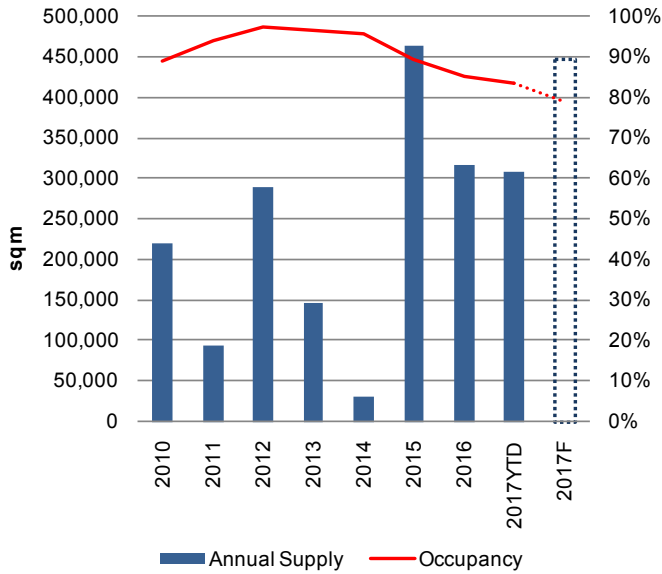
Six newly operating office buildings in the CBD significantly and definitely put more pressure to occupancy performance. Despite declining 2% in 2016-2017 YTD, occupancy has been relatively flat in 2017 and has registered a moderate increase of 83.3% QOQ. However, the large upcoming supply at the remainder of 2017 coupled with relatively unstable absorption will possibly bring occupancy down to below 80% by the end of 2017, which is a decline of 4-5% YOY.

Although occupancy is projected to go down, the number of office space enquiries is expected to increase due to both relocation and expansion. We anticipate some big potential

transactions to come on stream from some industries, including banking, leasing, shipping, consumer goods, IT, telecommunication and start-up companies. A new telecommunication company intends to penetrate the Indonesian market and will require a substantial amount of office spaces, particularly in the CBD area.

We also monitor some tenants that will temporarily relocate (swing spaces) whilst waiting for their existing offices that are currently being renovated. This is happening to two big state-owned companies that are seeking large office spaces in the CBD. In some cases, relocation activities are sometimes followed by space expansion, which helps maintain occupancy performance in the future.

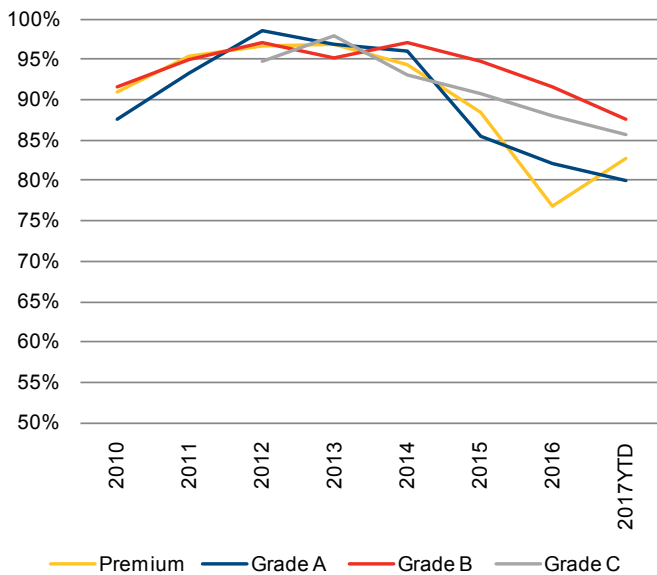
## Annual Supply and Occupancy Rates



Source: Colliers International Indonesia - Research

The abundant office spaces in the market offer many possibilities for tenants, who can choose from amongst many options, and thus providing opportunities for them to occupy a new building even when rent is competitive when compared with older buildings. Other than that, for the sake of efficiency and due to budget constraint, more tenants are currently very keen to move to second-hand but fitted-out spaces left by previous tenants. They may spend less and might only need minor renovation works in an efficient way.

## Occupancy Rates Based on Building Grade

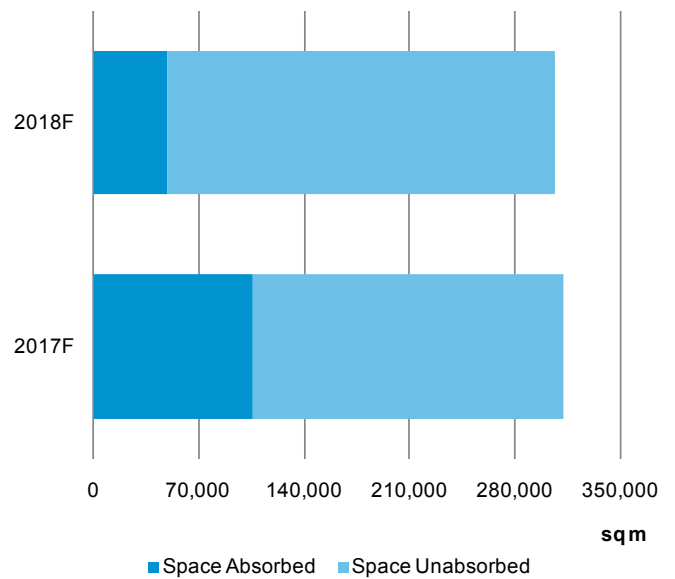


Source: Colliers International Indonesia - Research

The growth of economic activities in Jakarta has triggered a vast amount of new ventures, mostly involving start-up companies in the technology sector. As the working population rises, cost of rent continues to soar, as companies endeavour to succeed in a volatile business environment. The uncertainty in the market caused conventional office spaces, which require long-term contracts, less favourable. This condition initiates the emergence of co-working businesses that also provide private office spaces. New start-up or any company trying to cut costs perceived the concept to be efficient and as a cost-effective workspace model.

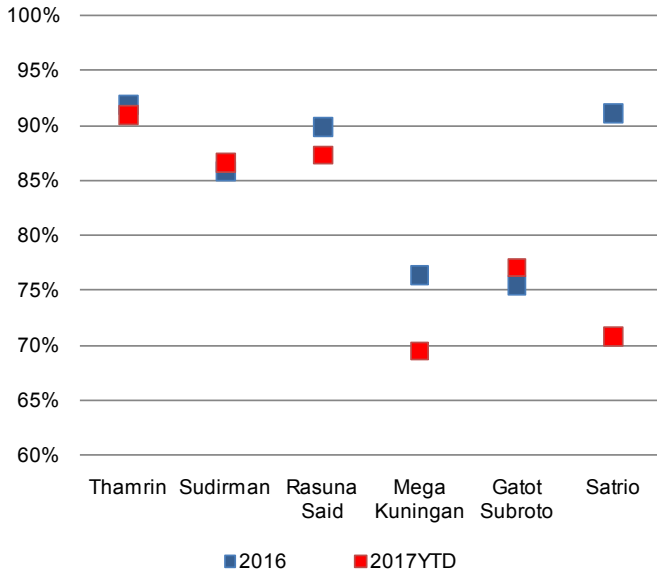
Spreading across all regions in Jakarta, the fastest growth of co-working spaces are eventually in the CBD area, especially for operators with resilient working capital. They would normally take areas of up to 1,000 sq m or beyond. Although local players still dominate the co-working space market, foreign players, mainly from Asia countries, have already started penetrating the market.

## Pre-Committed Absorption at Office Buildings for Lease in 2017 – 2018



Source: Colliers International Indonesia - Research

## Averages Occupancy Based on Area



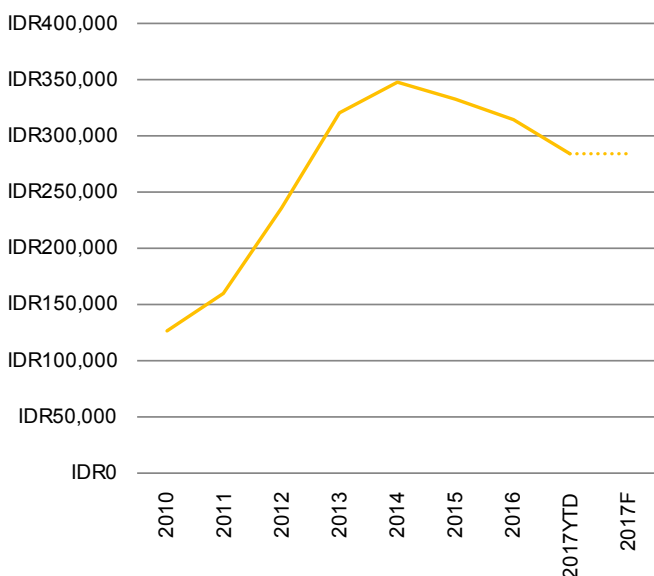
Source: Colliers International Indonesia - Research

## Asking Rents

Average Asking Rents (in IDR/sq m/month) Based on Grade			
	2016	Q3 2017	YTD CHANGE
Premium	445,463	446,526	0.2%
Grade A	315,282	280,031	-11.2%
Grade B	244,669	271,996	11.2%
Grade C	205,422	182,024	-11.4%

Source: Colliers International Indonesia - Research

## Average Asking Rents



Source: Colliers International Indonesia - Research

In proportion to the deteriorating occupancy rates, the average base rental rate has eroded in the CBD at least over the last year. The average base rental dropped 9% in 2016-2017 YTD. Despite still in a downward trend since Q3 2016, the average base rental strengthened in Q3 2017. Only a few office buildings adjusted their base rental lower to boost their occupancy rates at a healthier level. Thanks to the other office buildings that maintained their base rental rate relatively stable QOQ, this quarter figure stood at IDR284,368/sq m/month. The already steady rent might rise in anticipation of the upcoming large future supply coming on stream in the near term of 2017. Two of six future office buildings projected to operate in the remainder of 2017 are categorised as premium office buildings that commonly offer higher rents, and this will change the overall rental calculation particularly when those buildings have large vacant spaces.

In 2016-2017 YTD, some office buildings within a prestigious complex in Sudirman adjusted their base rents lower, ranging from 10% up to 30%. This is particularly in correlation with the rental performance of Grade A office buildings in the CBD. Meanwhile, tight competition in this tenant market situation still give pressure to lower grade office buildings. In the same case, only newly operating office buildings that offer rents above market prices could change the overall rental calculation, which resulted to the overall rental growth for Grade B office buildings in 2016-2017 YTD.

Average Asking Rents (in IDR/sq m/month) Based on Area			
	2016	Q3 2017	YTD CHANGE
Thamrin	330,582	343,754	4.0%
Sudirman	317,873	275,762	-13.2%
Rasuna Said	267,134	252,942	-5.3%
Mega Kuningan	248,874	260,418	4.6%
Gatot Subroto	351,035	330,166	-5.9%
Satrio	285,592	253,359	-11.3%

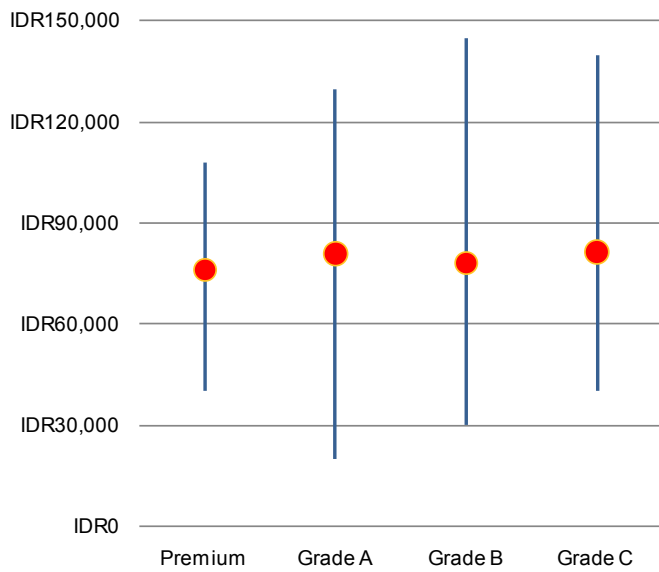
Source: Colliers International Indonesia - Research

## Service Charges

Service charges were recorded relatively flat YOY in the CBD. A slight increase in 2016–2017 YTD to IDR79,731/sq m/month was only contributed by new office buildings that started operating in 2017. Other than that, the new strata-title office buildings with service charges below market prices (because these buildings generally apply separate electric metres) will make sure that the average service charges will be relatively stable up to the end of 2017.

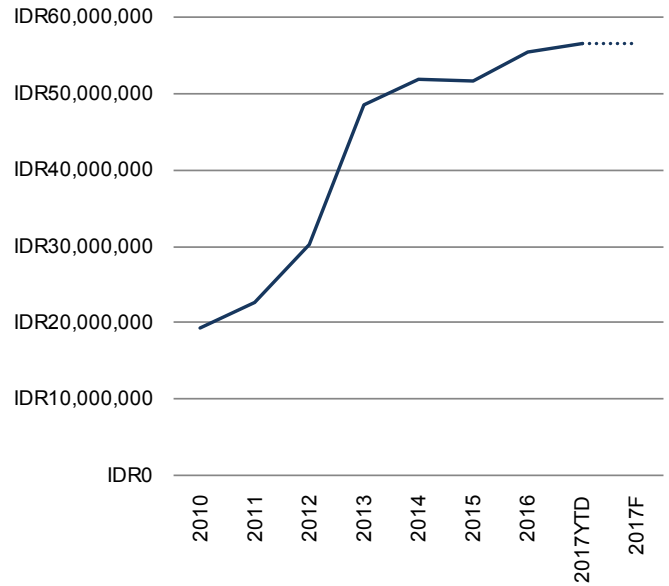


## The Range of Service Charges Based on Building Grades



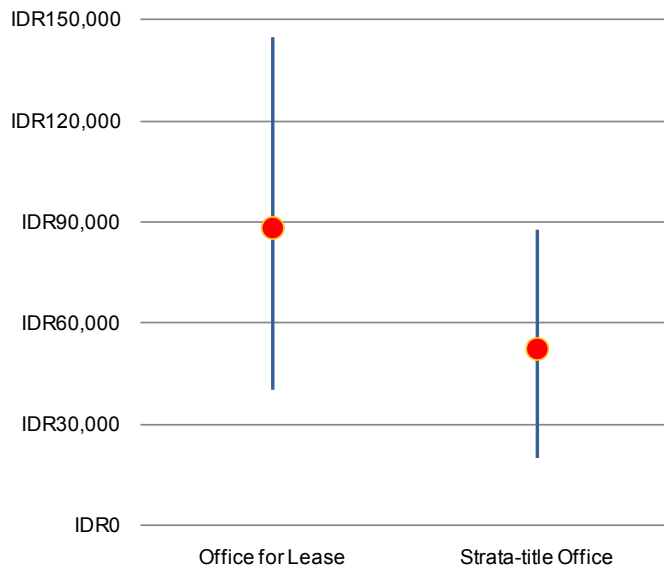
Source: Colliers International Indonesia - Research

## Average Asking Prices Based on Available Spaces



Source: Colliers International Indonesia - Research

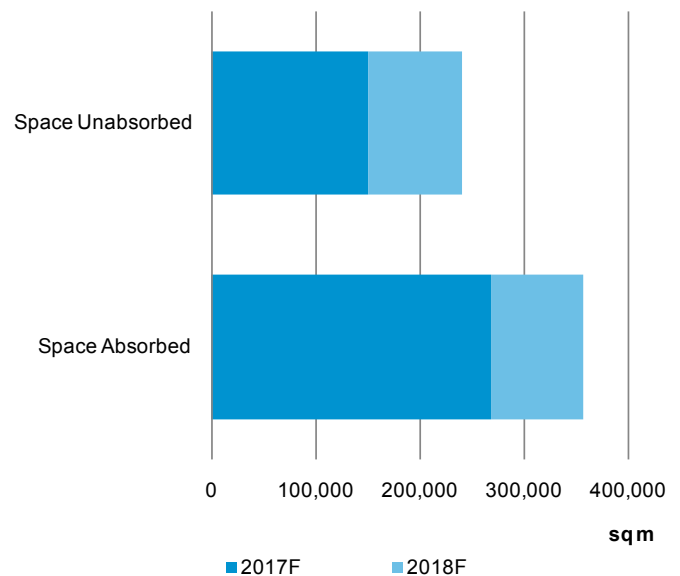
## The Range of Service Charges Based on Marketing Schemes



Source: Colliers International Indonesia - Research

Despite registering limited sales transactions, landlords are still reluctant to sell at lower prices. Landlords prefer to offer the unsold spaces for lease, whilst expecting the market for strata-title office to improve.

## Pre-Committed Take-Up Rate of Strata – Title Office Building Spaces for Sale in 2017 – 2018



Source: Colliers International Indonesia - Research

## Strata-Title Office

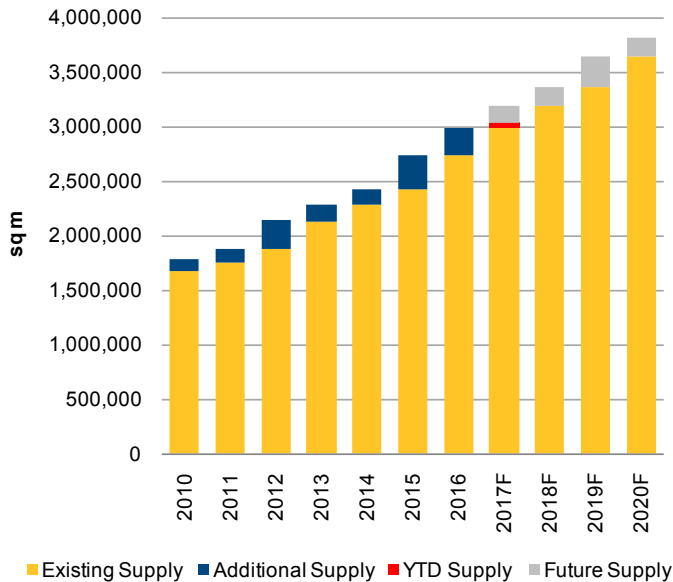
The absence of significant sales transaction in strata-title offices continued in Q3 2017, as around 40% of the total office spaces for sale in 2017-2018 remain unsold. The average prices stayed at IDR56.6 million/sq m as of Q3 2017. In line with a moderate take-up rate projection, the average asking prices are expected to be relatively stable up to the end of 2017, which means reflecting a 2% increase YOY.

# Outside the CBD

## Office Spaces Offered For Lease

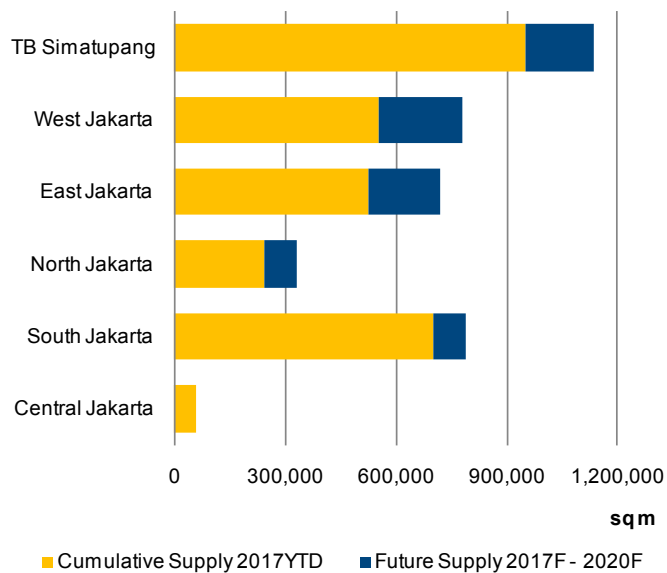
### Supply

#### Office Cumulative Supply



Source: Colliers International Indonesia - Research

#### Office Cumulative Supply Based on Area



Source: Colliers International Indonesia - Research

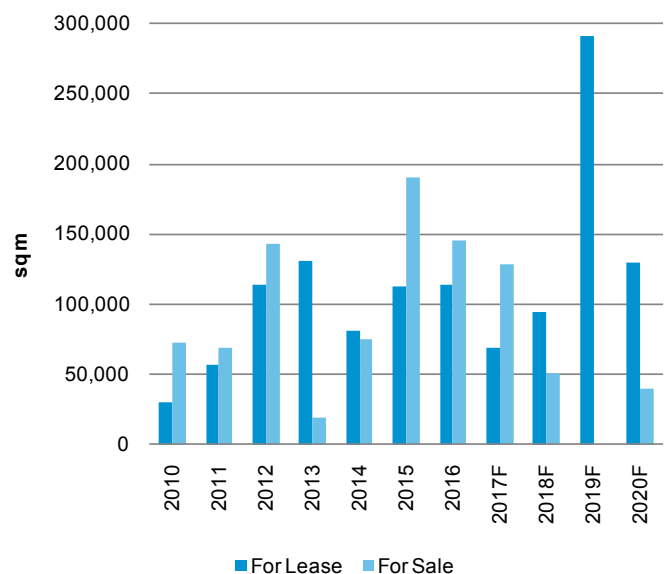
Consecutively in Q2 and Q3, the absence of new office spaces caused the cumulative supply outside the CBD to remain at 3.03 million sq m. Based on how construction is progressing, large future supply is expected to come in at the remainder of 2017. Eight office buildings will result to 3.19 million sq m of cumulative supply by the end of 2017, showing a growth by 6.6% YOY.

Furthermore, we estimate a total of around 630,000 sq m of future office supply in 2018-2020. Based on area, around 40% of the total future supply outside the CBD is located in South Jakarta. In addition, West and Central Jakarta will also become main contributors for future office spaces up to 2020.

As the largest office space contributor outside the CBD, around 70% of the large future supply in South Jakarta is supplied by TB Simatupang. TB Simatupang itself experienced a booming supply by registering around 500,000 sq m of total additional office spaces in 2013-2016. Including Pondok Indah and its surrounding areas, the current cumulative supply in TB Simatupang was recorded around 950,000 sq m. Nevertheless, the projected number of office spaces in 2017-2020 at TB Simatupang is quite limited compared to the previous years. Zuria Tower is expected to meet completion by the end of 2017 and then The Sima within Izzara complex in 2018.

The lack of infrastructure, particularly major roads and roads connecting southern and northern TB Simatupang, becomes a primary threat to the growth of office supplies in TB Simatupang. The construction progress of Desari (Depok-Antasari) Toll Road, which will connect South Jakarta and Depok, is expected to bring positive impact for future development at TB Simatupang, despite indirectly to the office sector. Potentially, the residential sector will be developed first. Nevertheless, we project with the growing number of employees moving to Southern Jakarta that companies will likely relocate to this area.

#### Office Annual Supply Based on Marketing Scheme



Source: Colliers International Indonesia - Research

New Supply Pipeline in Outside CBD excluding TB Simatupang				
OFFICE BUILDING PROJECT	LOCATION	SGA (SQ M)	MARKETING SCHEME	DEVELOPMENT STATUS
<b>2017</b>				
Gallery West	Kebun Jeruk	29,000	For Sale	Under Construction
Tamansari Parama	Wahid Hasyim	10,800	For Sale	Under Construction
One Belpark Office	Pondok Labu	17,800	For Lease	Under Construction
St Moritz Office Tower	Puri Indah	19,500	For Sale	Under Construction
BKP Office Tower	Sunter	16,000	For Lease	Under Construction
Hermina Office Building	Kemayoran	20,000	For Sale	Under Construction
Puri Matahari Tower	Puri Kembangan	28,925	For Lease	Under Construction
<b>2018</b>				
Arcade Business Center	Pantai Indah Kapuk	22,000	For Lease	Under Construction
Soho Pancoran	Pancoran	30,000	For Sale	Under Construction
One Tower	Kemayoran	21,400	For Sale	Under Construction
Ciputra International Puri 1 Phase 1	Puri	15,000	For Lease	Under Construction
Ciputra International Puri 2 Phase 1	Puri	20,000	For Lease	Under Construction
<b>2019</b>				
MNC Tower II	Kebon Sirih	60,000	For Lease	Under Construction
Jakarta Box Tower	Kebon Sirih	36,000	For Lease	Under Construction
The Unity @ Kota Kasablanka	Kasablanka	80,000	For Lease	Under Construction
Ciputra International Puri 3 Phase 1	Puri	30,000	For Lease	Under Construction
Ciputra International Puri Phase 2	Puri	15,000	For Lease	In Planning
Ciputra International Puri 1 Phase 3	Puri	15,000	For Lease	In Planning
Ciputra Internatinal Puri 2 Phase 3	Puri	15,000	For Lease	In Planning

Source: Colliers International Indonesia - Research

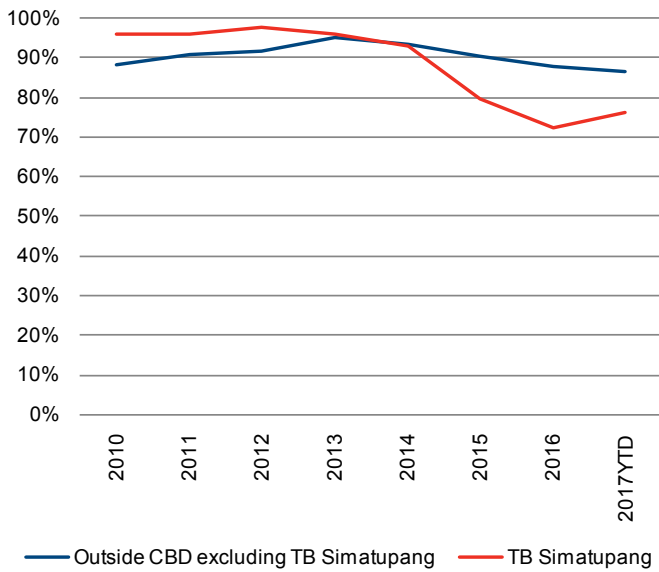
New Supply Pipeline in TB Simatupang				
OFFICE BUILDING PROJECT	SGA (SQ M)	MARKETING SCHEME	DEVELOPMENT STATUS	
<b>2017</b>				
Zuria	6,584	For Lease	Under Construction	
<b>2018</b>				
The Sima	60,000	For Lease	Under Construction	
<b>2019</b>				
Arkadia Tower G	30,000	For Lease	In Planning	
Beltway Office Park Tower 4	30,839	For Lease	In Planning	
<b>2020</b>				
The Manhattan Square Tower 2	39,375	For Lease & Sale	In Planning	

Source: Colliers International Indonesia - Research



## The Occupancy

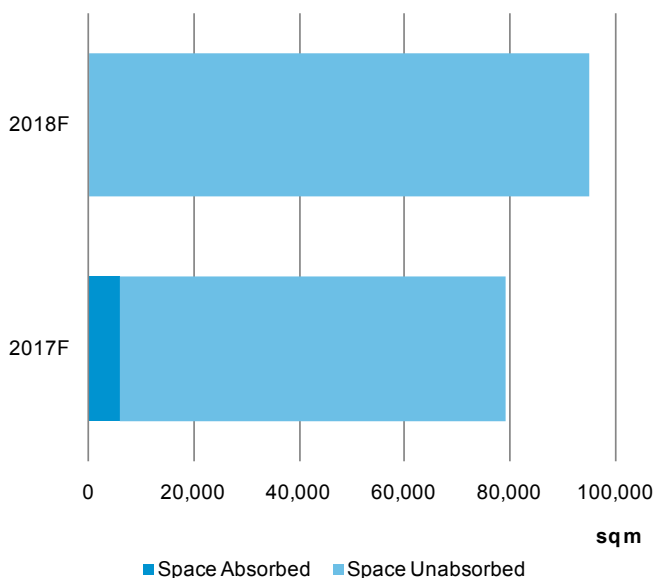
### Occupancy Rates



Source: Colliers International Indonesia - Research

Conversely, with the absence of office supplies in Q2 and Q3 2017, the average occupancy rates for office buildings outside the CBD improved marginally. As of Q3 2017, occupancy rate was recorded at 83.5%, a slight increase in 2016-2017 YTD. This figure would drop in near term given a large projected future supply, albeit still above 80%.

### Pre-Committed Absorption at Office Buildings for Lease in 2017 – 2018



Source: Colliers International Indonesia - Research

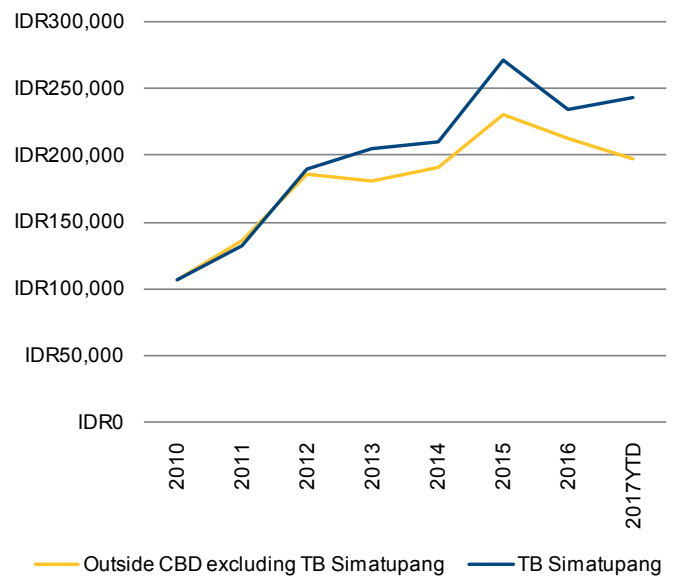
Compared to other areas that are relatively stagnant, occupancy rates of office buildings in South Jakarta slightly grew in 2017. Despite showing positive performance, the average occupancy rate in South Jakarta was still the lowest compared to other regions outside the CBD. Occupancy rates in South Jakarta were mainly complemented by the performance of office buildings located in TB Simatupang. Despite being still below 80%, the average occupancy rates of office buildings at TB Simatupang increased significantly by 7.2% in 2016-2017 YTD to 76.4%. Whilst office demand is expected to be small, the limited future supply of office buildings will help the forecasted occupancy rates in TB Simatupang improve, albeit moderately.

## Asking Rents

Average Asking Rents (in IDR/sq m/month) Based on Region			
	2016	Q3 2017	YTD CHANGE
Central Jakarta	153,596	152,247	-0.9%
South Jakarta	235,277	230,572	-2.0%
North Jakarta	226,100	212,538	-6.0%
East Jakarta	125,000	125,000	0.0%
West Jakarta	192,432	196,144	1.9%

Source: Colliers International Indonesia - Research

### Average Asking Rents



Source: Colliers International Indonesia - Research

Despite limited supply, the average rent for office buildings outside the CBD dropped in 2017. The average base rental was at IDR217,715/sq m/month in Q3 2017, showing a decreasing growth of 2.7% in 2016-2017 YTD. Based on area, the highest average rent outside the CBD was still recorded in South Jakarta (the home of modern and big buildings outside the CBD area), whilst East Jakarta was the lowest as of Q3 2017.

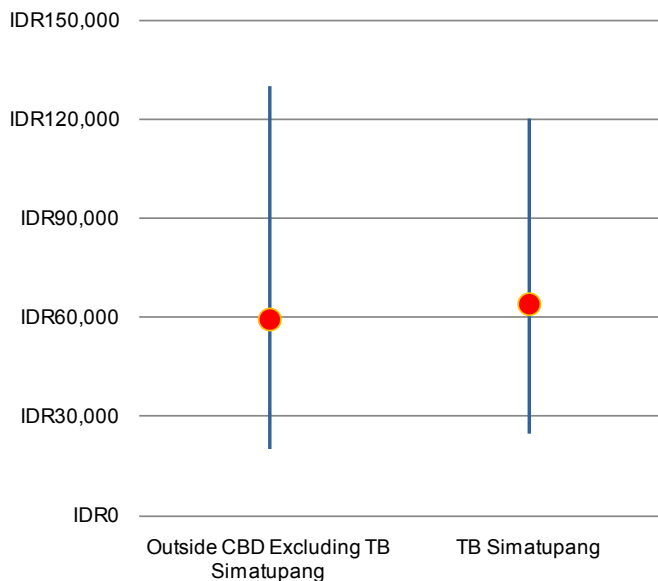
High average rents in South Jakarta were still driven by high-quality buildings located along Jalan TB Simatupang. The average base rental at TB Simatupang increased by 2% QoQ at IDR242,943/sq m/month in Q3 2017.

Average Rents (in IDR/sq m/month) Based on Building Grades			
	2016	Q3 2017	YTD CHANGE
Grade A	269,728	271,275	0.6%
Grade B	225,035	223,057	-0.9%
Grade C	150,223	152,208	1.3%

Source: Colliers International Indonesia - Research

## Service Charges

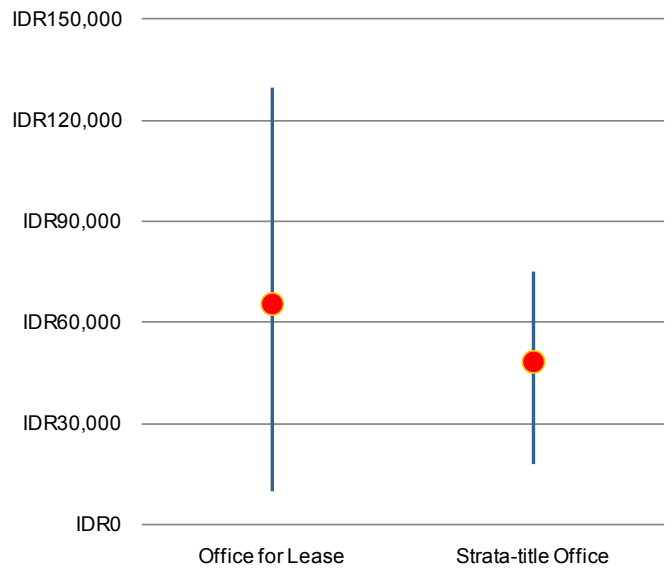
### The Range of Service Charges Based on Area



Source: Colliers International Indonesia - Research

Overall service charges were recorded at IDR60,830/sq m/month outside the CBD as of Q3 2017. Despite showing a 5.6% growth from 2016 to 2017 YTD, service charges are also expected to be relatively flat outside the CBD in Q4 2017.

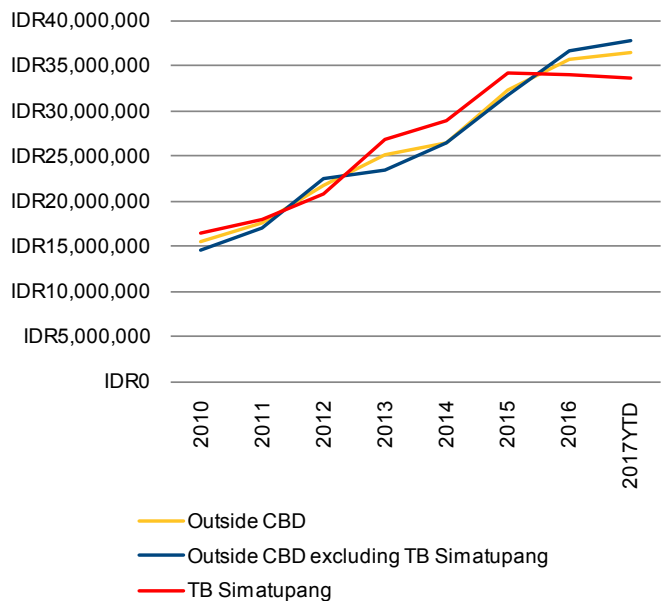
## The Range of Service Charges Based on Marketing Schemes



Source: Colliers International Indonesia - Research

## Strata-Title Office

### Average Asking Prices Based on Available Spaces



Source: Colliers International Indonesia - Research

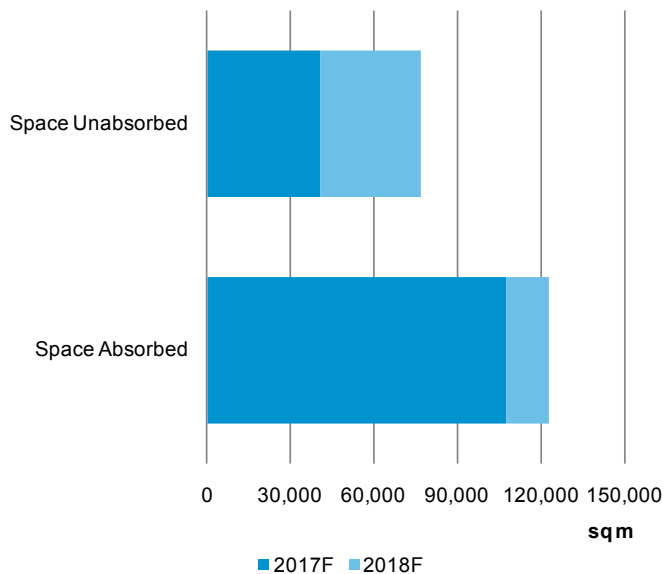
The average office space prices outside the CBD (excluding TB Simatupang) were registered at IDR37.7 million/sq m as of Q3 2017. Two strata-title office buildings in Kelapa Gading (North Jakarta) confidently adjusted their price higher at around 17% in 2016-2017 YTD, and this contributed to edge the average prices up by almost 3%. Currently, these two strata-title office buildings only have limited available spaces and previously offered asking prices lower than the average market price.

Conversely, one strata-title office building that began operation in 2016 in TB Simatupang adjusted its asking prices by around 7% lower than last quarter in order to push sales upward. We also recorded declining prices in office units at the secondary market. Owners of these units are still expecting a proper capital gain even by lowering their price by 7% up to 13% than in the previous offer. This situation drove the current average asking prices at TB Simatupang to drop 3.2% QOQ to IDR33.6 million/sq m.

## Concluding Thoughts

The office market intends to come close to a confident level and expects office demand to rise. Office space enquiries are expected to come from relocations and expansions. Nonetheless, supply flow is still too strong to be offset by even a seemingly resilient demand, at least until the quantity of supply influx stabilises. Having said that, landlords still need to be patient to see a rebound in the rental tariff, at least in the short term.

### Pre-Committed Take-Up Rate of Strata – Title Office Building Spaces for Sale



Source: Colliers International Indonesia - Research

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