

JAKARTA & GREATER JAKARTA | RETAIL

Retail Sector

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The current occupancy figure of Jakarta's retail market was recorded as the lowest, at least for the last 10 years. Besides the entry of large, newly operating shopping centres bringing more vacant spaces, the shutdown of two big department stores by the end of September 2017 has also rubbed salt to the wound. The retail market itself is entering a very challenging period, as consumers' spending power declines and some prominent stores and mall outlets shut down. Thanks to the prevailing shopping centre moratorium in Jakarta, the supply side was controlled during the current slowdown.

Forecast at a glance



Demand

The limited supply projection will likely help occupancy improve slightly, reaching the end of the year, especially because we still expect to see the expansion of certain growing retail sectors, such as food and fashion.



Supply

The cumulative supply is expected to only increase by less than 2% YOY by the end of 2017. Meanwhile, Greater Jakarta area will close its book for any additional supplies in the remainder of 2017; new supplies will only be available in 2018.



Vacancy Rate

A few shopping malls contributed to the overall increase in vacancy to 16.2% this quarter or up 2.3% QOQ. Without any additional supply, occupancy in 2018 is projected to increase marginally to 84.5%.



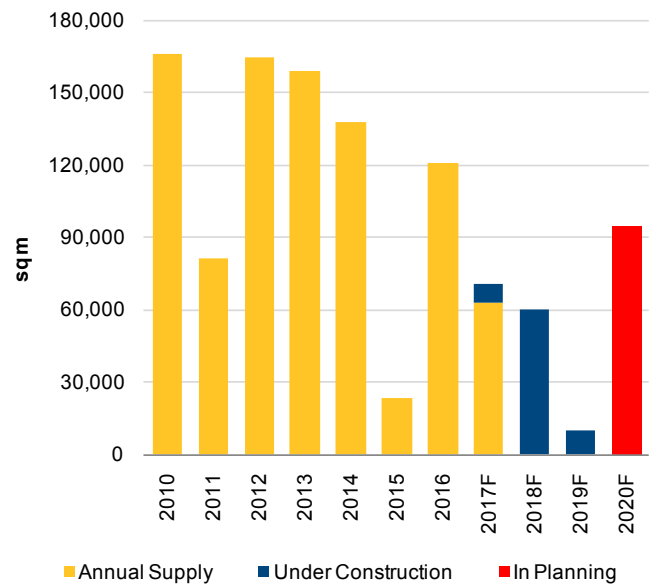
Rent

Over the short-term period, rents are unlikely to improve primarily because landlords would reduce the vacancy level and therefore have to offer an interesting occupancy cost package. By the end of 2018, average rental rate will improve marginally by 2% to IDR629,312/sq m/month.

Jakarta

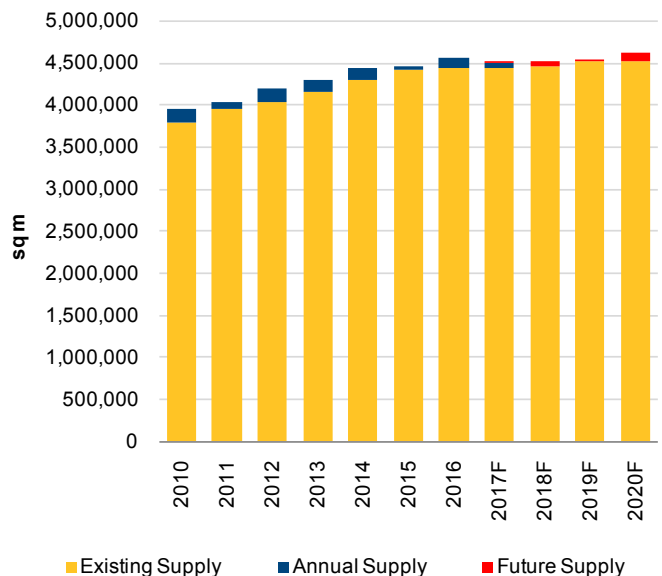
Supply

Annual Retail Space Supply in Jakarta



Source: Colliers International Indonesia - Research

Cumulative of Retail Space in Jakarta

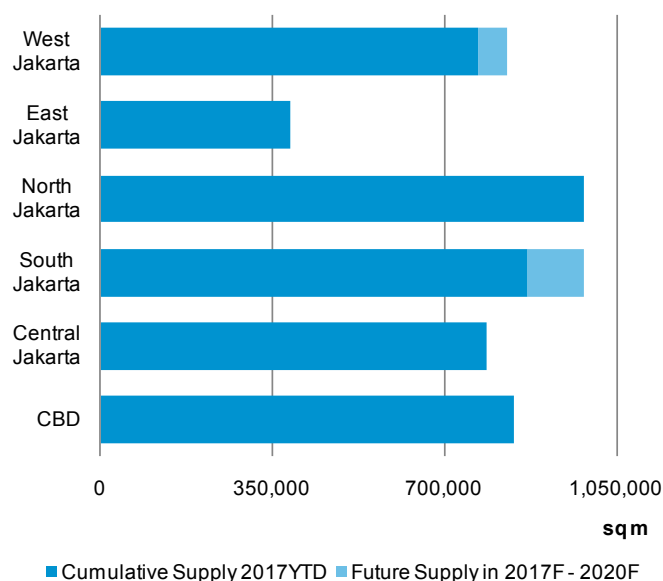


Source: Colliers International Indonesia - Research

Aeon Mall Jakarta Garden City added 68,000 sq m of retail spaces during the quarter, bringing cumulative supply to 4.63 million sq m in Jakarta. In the remaining three months of 2017, Jakarta will only have a slight number of retail spaces from Shopping Mall at SOHO Pancoran. The combined spaces of Aeon and SOHO Pancoran will bring the total retail space in Jakarta to 4.64 million sq m by the end of 2017, up 1.6% YOY.

We anticipate a fair number of additional retail spaces from 2018 onward, partly due to the permit limitation policy (moratorium) for new shopping malls set out by DKI Jakarta government. Based on current construction progress, we estimate to see only four retail centres meeting their completion and bringing the total number of additional retail spaces around 165,000 sq m in 2018-2020. Based on area, except New Harco Glodok in West Jakarta, all other future shopping centres will be located in South Jakarta.

Retail Space Distribution Based on Region in Jakarta



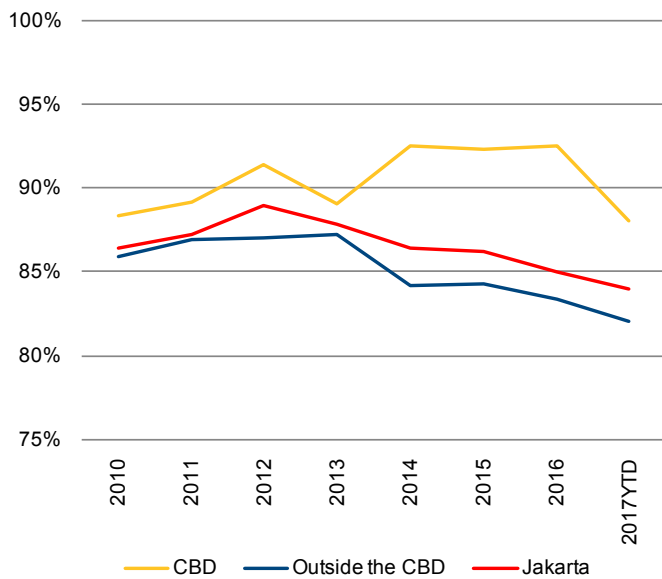
Source: Colliers International Indonesia - Research

New Supply Pipeline						
SHOPPING CENTER	LOCATION	REGION	DEVELOPER	NLA (SQM)	DEVELOPMENT STATUS	ADDITIONAL INFORMATION
2017						
Shopping Mall at SOHO Pancoran	Pancoran	South Jakarta	Agung Podomoro Land	8,000	Under Construction	Part of integrated mixed-use project including apartment
2018						
New Harco Plaza	Glodok	West Jakarta	Agung Podomoro Land	60,000	Under Construction	Stand-alone strata-title retail center
2019						
D'Entrance	TB Simatupang	South Jakarta	Loka Mampang	10,000	Under Construction	Part of integrated mixed-use project including office park
2020						
Shopping Mall at South Gate	Lenteng Agung	South Jakarta	Sinarmas Land & Aeon	35,000	Under Construction	Retail center within mixed-use development
Pondok Indah Mall 3	Pondok Indah	South Jakarta	Metropolitan Kentjana	60,000	In Planning	Stand-alone retail center

Source: Colliers International Indonesia - Research

Demand

Occupancy Rates in Jakarta



Source: Colliers International Indonesia - Research

The current period recorded the lowest occupancy rate ever since 2000. A few shopping malls reported of having more vacant spaces after some retailers closed. Such condition, coupled with the opening of new shopping centres with substantial number of vacant spaces, dropped the overall occupancy level to 83.8%, down 2.3% QOQ.

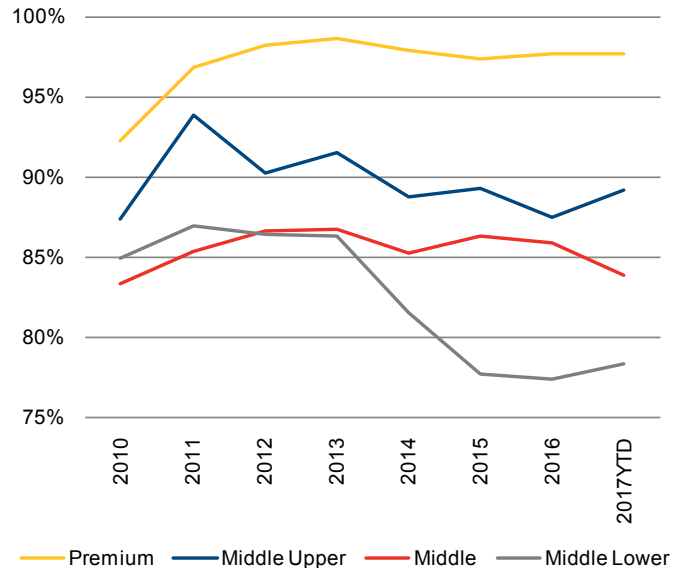
Research on the Global Retail Development Index can also explain the current Indonesian retail market. Indonesia was ranked 8th, three levels lower than in the previous year, although retail sales in Indonesia in 2017 increased by 8.02% YOY.

Both inside and outside the CBD, occupancy declined by 2% QOQ. Occupancy in the CBD was registered at 87.8%, whilst in other areas outside the CBD, the figure is lower and registered at 82.2%. Almost all regions outside the CBD showed a relatively steady occupancy rate, except East Jakarta. This was mainly due to the inclusion of Aeon Mall Jakarta Garden City (20% physical occupancy rate) to the supply, which affected the overall occupancy calculation. A substantial 15% QOQ decrease in occupancy brought the performance of overall shopping centres in East Jakarta down to only 69.1%.

From retailers' standpoint, the weakening retail market may stop local and foreign retailers from expanding to Indonesia. In 2017, the growth on retail sales was not in parallel with the number of visitors. Approaching the end of September, Matahari Department Store announced the closure of their two outlets located in Blok M and Manggarai because the number of visitors has scaled down, further declining sales. Subsequently, the company aims to be more intensive in online retailing through MatahariMall.com and run only several brick-and-mortar stores. Overall, the retail industry currently seems to be lukewarm and no longer as enticing as before. This also pushed other department stores, including Ramayana, to transform their retail concept, especially for stores outside Jakarta. Some have made conceptual changes from being supermarkets to department stores, considering that there is more promising potential market for department stores than supermarkets.

Apart from the closure of several stores and outlets, we recorded several new retailers started operating in Jakarta. Fashion and F&B are still the typical expanding tenants in Q3 2017. Such category comprises infants and kids' clothing apparel, sportswear, bags and shoes, which represent around 60% of the total leasing transactions being recorded, followed by F&B with 30%, and the rest are health and beauty products and jewellery retailers.

Occupancy Rate Based on Mall Grade in Jakarta



Source: Colliers International Indonesia - Research

Several Committed Tenants at Existing Mall with Space Above 300 sq m

SHOPPING CENTRE	LOCATION	TENANT NAME	PRODUCT
Lippo Mall Puri	Puri, West Jakarta	Uniqlo	Fashion & Accessories
One Belpark	Pondok Labu, South Jakarta	Miniso	Fashion & Accessories
Pasaraya Blok M	Blok M, South Jakarta	Transmart Carrefour	Hypermarket
Pasaraya Blok M	Blok M, South Jakarta	Outback	Restaurant
Pondok Indah Mall 2	Pondok Indah, South Jakarta	Farmers Market	Daily consumption
Grand Indonesia	Thamrin, Central Jakarta	Miniso	Fashion & Accessories
Kota Kasablanka	Casablanca, South Jakarta	Miniso	Fashion & Accessories
Pacific Place	SCBD, South Jakarta	Hermes Paris	Fashion & Accessories
Mall Kelapa Gading 3	Kelapa Gading, North Jakarta	Miniso	Fashion & Accessories

Source: Colliers International Indonesia - Research

Committed Tenants at New and Future Shopping Center

SHOPPING CENTRE	AREA	YEAR OPERATION	TENANT NAME
JAKARTA			
Aeon Jakarta Garden City	Cakung, East Jakarta	2017	Footgear, Ichiban Sushi, H&M, Clarks, Charles & Keith, Uniqlo, Guess, Wood, Wrangle, CGV Blitz, Colorbox, Wrangler, Pepper Lunch, Yoshinoya, Starbucks, Ta Wan, Solaria
GREATER JAKARTA (BODETABEK)			
Lagoon Avenue Mall	Kalimalang, Bekasi	2017	CGV Cinema, Funworld, Hero Supermarket, Sports Station, Skechers, Optik Melawai, Solaria, Miniso, Optik Seis, Converse, Es Teler 77, Kidz Station, Platinum Resto, Gokana, Ta Wan, Batik Keris, Tous Les Jours
Galleria Vivo Mall Sentul	Cibinong, Bogor	2018	Centro Department Store, Lulu, Cinema CGV Blitz, Fun World, Lotte Mart

Source: Colliers International Indonesia - Research

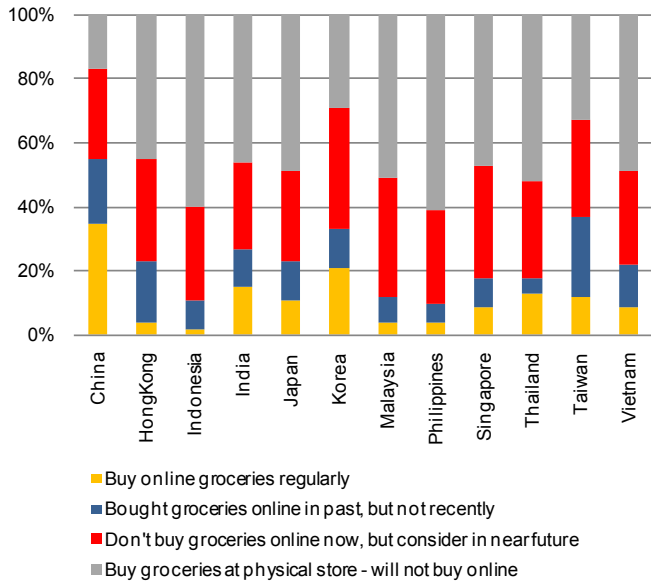
Through Presidential Regulation No. 44/2016, foreign retailers are allowed to set up department stores in Indonesia, with retail area from 400 to 2,000 sq m and a maximum of 67% foreign involvement. UAE-based retailer, LuLu Group Retail International aims to open up to 10 stores in the next two years. The next two outlets will be opened in Sentul and Cikarang before the middle of 2018. In addition, Korea's GS Supermarket unveiled its plan to expand and currently open its third store in Indonesia, complementing its presence in this domestic market for almost a year already.

Occupancy might be the best reference to justify a shopping mall's performance, but trading volume is much more important in sustaining a shopping mall. The recent study titled "Indonesian Ocean of Opportunities" conducted by Nielsen best explains the current phenomenon from the perspectives of both retailers and consumers. Economic indicators suggest that growth is quite on track, yet spending power is weakening. Retailers generally suffer from declining sales, and in many cases leading to the closure of their outlets. The Nielsen report describes that the drained middle-low class

consumers have lost their buying power because of their declining take-home pay, stagnant or negligible salary increase, and soaring cost of living. Meanwhile, the mid-upper class segment has been relatively solid, but according to the data released by Lembaga Penjamin Simpanan/LPS (Indonesia Deposit Insurance Corporation), the number of bank savings accounts with an amount above IDR2 billion is increasing. This suggests that this segment is becoming more prudent and selective in spending.

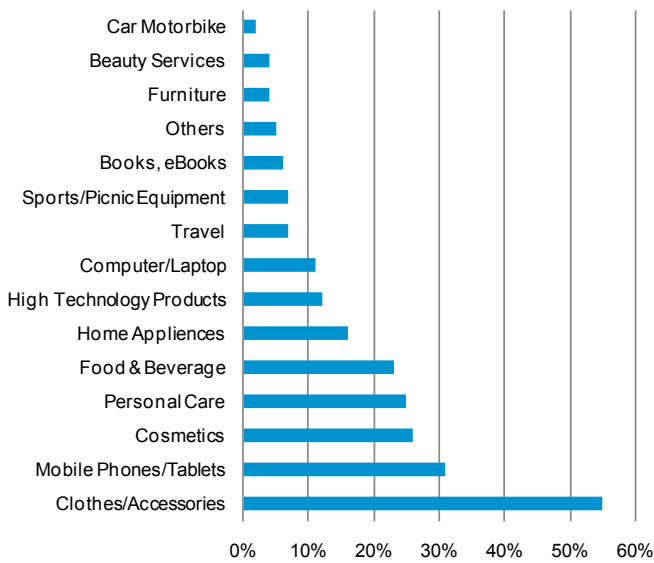
The presence of online stores to some extent undermines brick-and-mortar stores, although the Nielsen study revealed that only 1% of consumers buy online groceries regularly. The majority population of Indonesia still considers it more convenient to shop in brick-and-mortar stores rather than online. Comparatively, Indonesia scores the lowest of all Asian countries as depicted in the chart in terms of buying online groceries regularly. Based on purchased product category, most online sales were generated from clothes and accessories, followed by gadgets and cosmetics.

Asia Shopping Scheme



Source: Nielsen

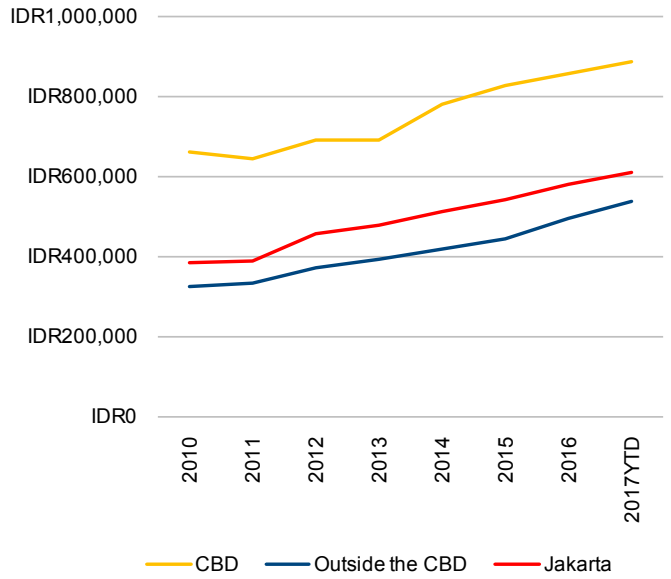
Purchase Product Category



Source: Nielsen

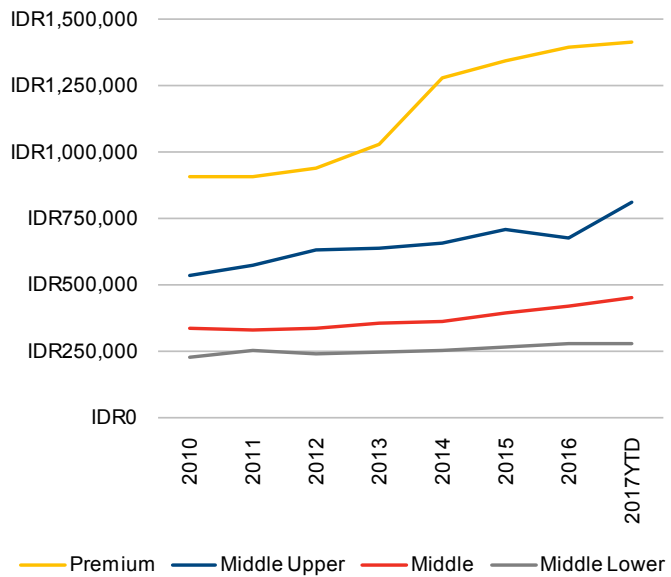
Rental Rates

Average Asking Rents in Jakarta



Source: Colliers International Indonesia - Research

Average Asking Rents Based by Mall Grade in Jakarta



Source: Colliers International Indonesia - Research

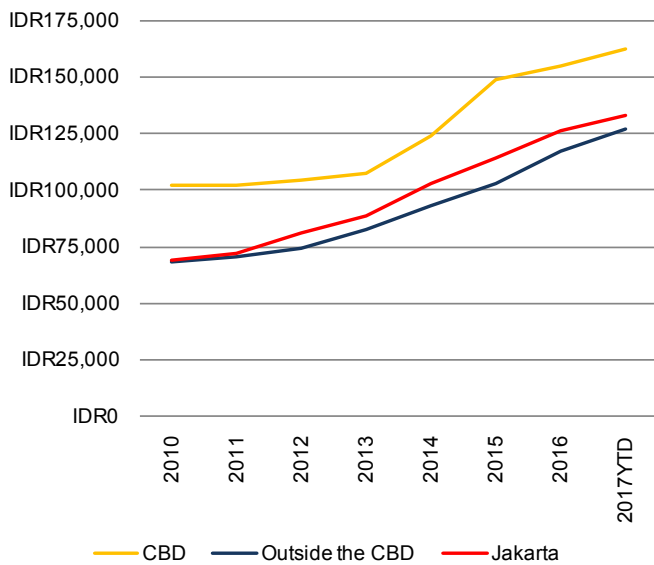
The recent figure of average asking rental rates in Jakarta was recorded at IDR610,863/sq m/month, suggesting a growth of 5% for the last three consecutive quarters. Some shopping centres review their offering rents regularly (every three years), and this mainly triggered the overall rental increase in Jakarta. Malls in premium category have been showing a relatively steady rental tariff for some periods, and this seems to continue at least in the short term.

The CBD area saw a slight rental increase by 3% for the last three quarters, due to the rental adjustment made by a shopping centre in Thamrin. The overall rental average in the CBD is now IDR885,182/sq m/month. Likewise, rental tariff adjustment in some shopping centres in South Jakarta pushed a 9% increase in 2017, pegging the average rent outside the CBD at IDR618,474/sq m/month.

Less than 10% of all shopping centres in Jakarta have adjusted their service charges higher than the previous year. Some of these shopping centres previously maintained the tariff stable over the last three years. The overall increase in service charges in 2017 is registered at 5.5%, bringing this quarter figure to an average of IDR133,284/sq m/month as of Q3 2017.

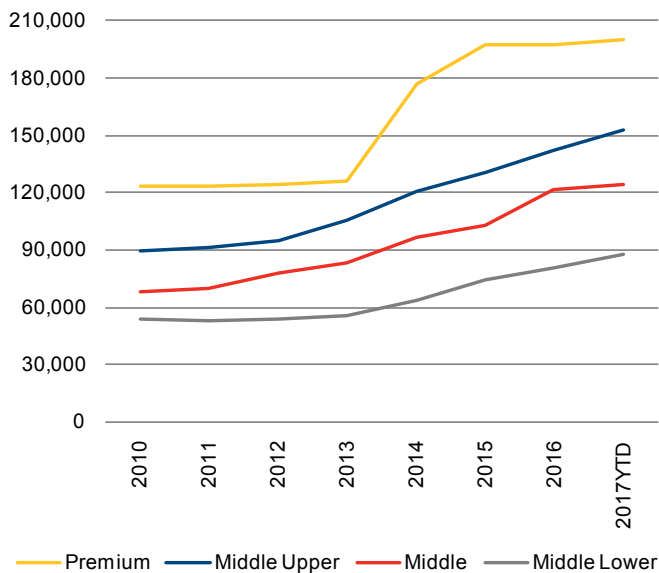
Service Charges

Average Service Charges in Jakarta



Source: Colliers International Indonesia - Research

Service Charges Based on Mall Grade in Jakarta

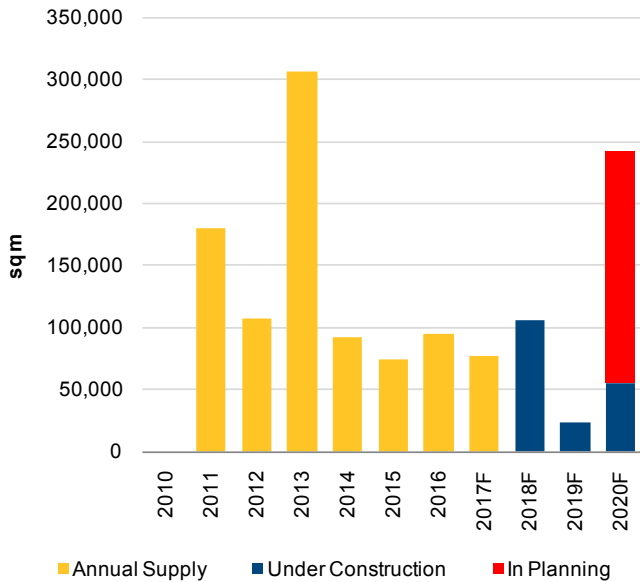


Source: Colliers International Indonesia - Research

Greater Jakarta (BoDeTaBek)

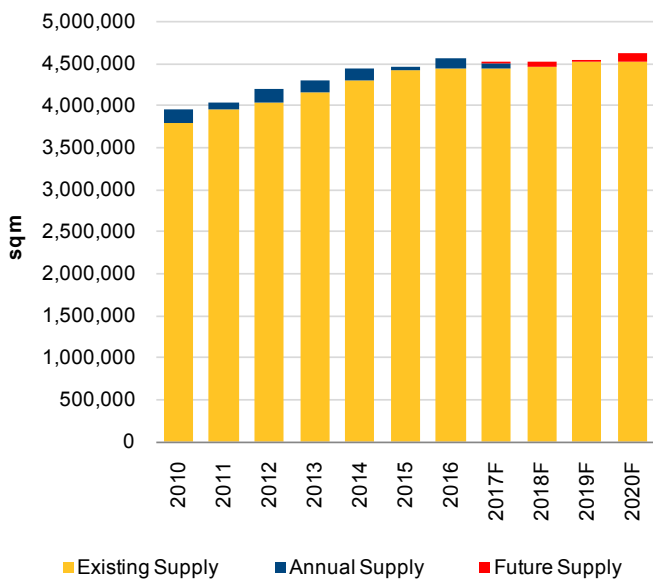
Supply

Annual Retail Space Supply in Greater Jakarta



Source: Colliers International Indonesia - Research

Cumulative of Retail Space in Greater Jakarta



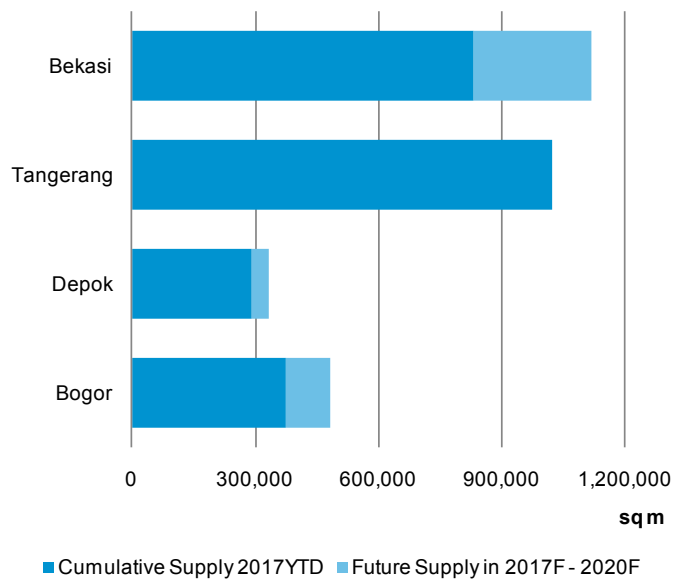
Source: Colliers International Indonesia - Research

Grand Kamala Lagoon, a multi-tower residential and commercial estate located in Bekasi, opened its 21,367-sq m Lagoon Avenue Mall, a retail shopping facility, which added to the total retail space in Greater Jakarta area at 2.55 million sq m as of Q3 2017. Lagoon Avenue Mall will be the latest shopping centre this year. Together with BTC City shopping mall, they will be the only retail buildings available for the entire 2017, contributing a total of 77,367 sq m.

In 2018, we will only see two shopping centres to be placed in the market; they are Galleria Vivo and Aeon Mall Sentul City. We have revised the completion schedule of Grand Dhika City from 2018 to most likely 2019, due to how its construction is progressing. Each of the shopping centres that started operating this year and those within the next three years are either part of a mixed-use project or built within a commercial and residential compound as supporting facilities or even targeting shoppers in a greater radius.

Based on Greater Jakarta's sub-market, Tangerang is currently the largest contributor for retail spaces even when compared to other regions in Jakarta. (North Jakarta holds the largest retail spaces in Jakarta.) Looking ahead, the number of retail spaces in Bekasi will surpass Tangerang by 2020 with at least five new shopping centres coming on stream, totalling to almost 290,000 sq m. One of these shopping centres is Aeon Deltamas, which will be Aeon's fifth shopping mall in Indonesia.

Cumulative of Retail Spaces Based on Area in Greater Jakarta



Source: Colliers International Indonesia - Research

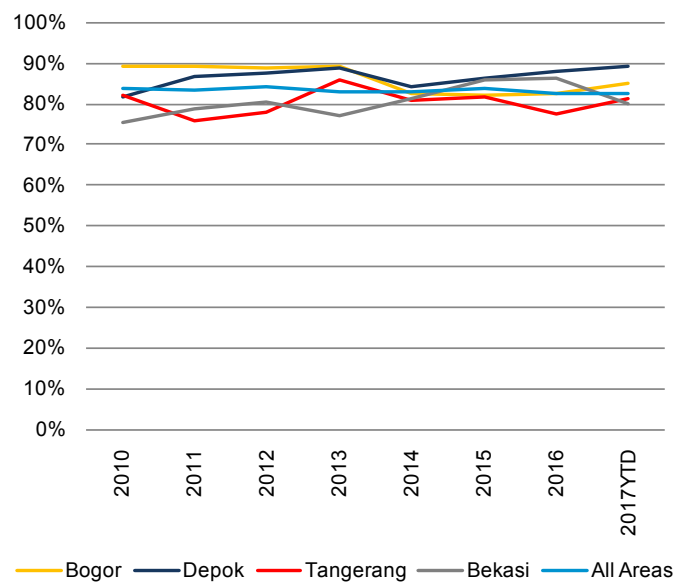
New Supply Pipeline						
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2018						
Galleria Vivo Sentul	Cibinong	Bogor	Megapolitan Land	35,000	Under Construction	Retail center within mixed use development
Aeon Mall Sentul City	Sentul	Bogor	Sentul City & Aeon	71,000	Under Construction	Retail Center within mixed-use development
2019						
Grand Dhika City Mall	Bekasi	Bekasi	Adhi Persada Property	24,000	Under Construction	Part of integrated mixed-use development
2020						
Shopping Mall at Pesona Square	Juanda	Depok	Menara Depok Asri	40,000	Under Construction	Part of integrated mixed-use development
Plaza Indonesia Jababeka	Cikarang	Bekasi	Plaza Indonesia Realty & Graha Buana Cikarang	55,685	Under Construction	Part of integrated mixed-use development
Kota Harapan Indah	Kota Harapan	Bekasi	Hasana Damai Putra	51,000	In planning	Stand-alone retail center
Shopping Mall at Kota Wisata	Kota Wisata	Bekasi	Sinarmas Land	45,000	In planning	Stand- retail center
Aeon Mall Deltamas	Deltamas	Bekasi	Deltamas & Aeon	90,000	In planning	Stand-retail center

Source: Colliers International Indonesia - Research

Demand

The general cause of the falling occupancy is the addition of new vacant spaces in newly operating shopping malls. This is true from Q1 to Q3 2017 in the Greater Jakarta areas. In 2016, occupancy level was registered at 82.5% and continued to slide down moderately to 82.2% in Q3 2017. In Bekasi, two new shopping malls caused average occupancy in this city to go down by 6%. Other cities, however, still performed well and therefore helped maintain the overall occupancy performance in Greater Jakarta at 82.2%. New mall tenants in Jakarta and Greater Jakarta were dominated by fashion and food. We still expect to see some retailers to open stores in the next three months.

Occupancy Based on Mall Area in Greater Jakarta



Source: Colliers International Indonesia - Research

Several Committed Tenants at Existing Mall with Space Above 300 sq m

SHOPPING CENTRE	LOCATION	TENANT NAME	PRODUCT
Depok Town Center	Sawangan, Depok	Ace Hardware	Home Equipment
Aeon Mall BSD	Serpong, Tangerang	Miniso	Fashion & Accessories
Grand Metropolitan	Kalimalang, Bekasi	Miniso	Fashion & Accessories
Mall Citra Gran	Cibubur, Bekasi	Miniso	Fashion & Accessories
Supermall Karawaci	Karawaci, Tangerang	Sports Station	Fashion & Accessories

Source: Colliers International Indonesia - Research

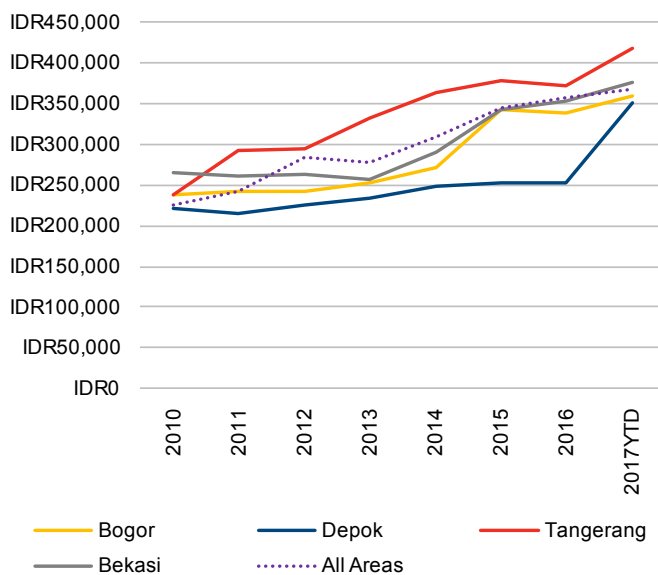
Committed Tenants at New and Future Shopping Center

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Galleria Vivo Mall Sentul	Cibinong, Bogor	2018	Centro Department Store, Lulu, Cinema CGV Blitz, Fun World, Lotte Mart

Source: Colliers International Indonesia - Research

Rental Rates

Average Asking Rents Based on Mall Area in Greater Jakarta



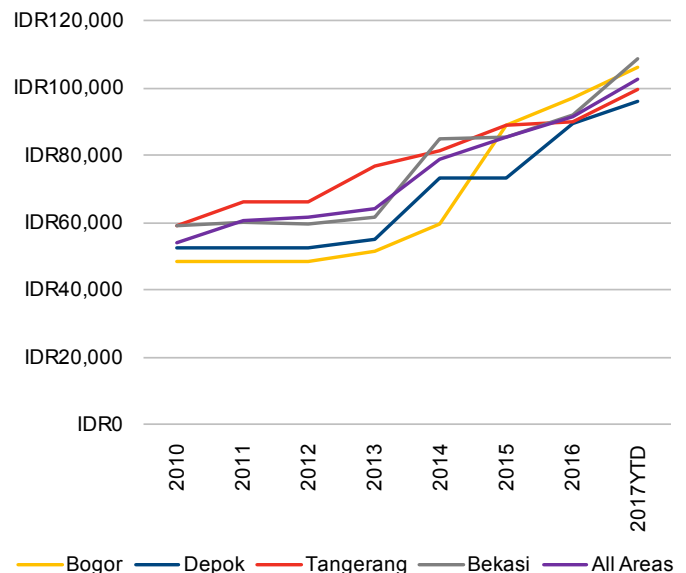
Source: Colliers International Indonesia - Research

Shopping centres in the Greater Jakarta areas predominantly maintained their rental tariff flat during the last three consecutive quarters of 2017. Only a few shopping centres located in Bekasi intended to adjust their current base rental. However, we also monitored that there were still quite a few shopping centres in Bekasi and Tangerang that offer base rental tariff below current average market prices, and thus the overall rent in the Greater Jakarta is up by 2.3% from early this year until 2017 YTD to IDR369,705/sq m/month.

Due to the confidence of having only a limited number of vacant spaces, some middle class shopping centres in Tangerang and Bekasi offer their unoccupied retail spaces quite high, starting from IDR400,000 up to IDR700,000/sq m/month.

Service Charges

Service Charges Based on Mall Area in Greater Jakarta



Source: Colliers International Indonesia - Research

Generally, shopping centre landlords in Greater Jakarta still see that there is no immediate action needed to adjust service charges. Over the quarter, a moderate QOQ growth of 2% in Greater Jakarta only sends the overall service charges to register at IDR102,477/sq m/month as of Q3 2017. In our record, around 60% of shopping centres categorised as middle and mid-low class in Jakarta and Greater Jakarta are still offering maintenance tariff below the average market price.

Each city in the Greater Jakarta area has relatively similar operational costs (mainly the minimum wages) and for sure the same utilities cost. Therefore, we see a similar service charge trend over the last few years, and there is also no big gap amongst the cities.

Outlook

The journey of Jakarta's retail market has entered its most challenging period yet, marked by the declining spending power that has led to the shutdown of retail outlets. In Jakarta, the retail market has been underpinned by a retail moratorium that maintains the number of additional retail spaces. Due to the moratorium, the retail sector has been quite "safe" from an oversupply situation. However, more incentives are needed to enliven trading activities. The middle to low class consumers will need more incentives from the government to recover their purchasing capability. Such incentives could include maintaining utilities prices (water, electricity, gas, etc.), stabilising transportation costs and lowering interest rates. Meanwhile, the middle to upper class segment needs more confidence over the current economic and political situation, which may include a friendlier tax regulation and more ease in doing business.

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