

GREATER JAKARTA | INDUSTRIAL ESTATE

Industrial Estate Sector

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The industrial sector has shown a sign of recovery, albeit small and gradual. Nevertheless, sales performance this year is far from good, with total sales in 2016 only representing 50% of the total sales in 2015. Land price has been generally stable, but prone to be more negotiable during this sluggish time.

Forecast at a glance



Supply

Several industrial estates with land stock will continue to prepare their raw land into a ready-to-use land with the entire infrastructure, in anticipation for potential sizeable enquiries and tenant expansion plans.



Demand

The growth of start-up companies and other products related to daily use might help fuel the enquiries for industrial properties. The expansion of industries based in China and Japan to Indonesia is believed to invigorate the market going forward.

Industrial Land Supply

One industrial estate in Karawang revealed that they would continue with the plan to acquire sizable lands for expansion. This expansion plan is needed to anticipate internal enquiries from the existing tenants that plan to increase production capacity.

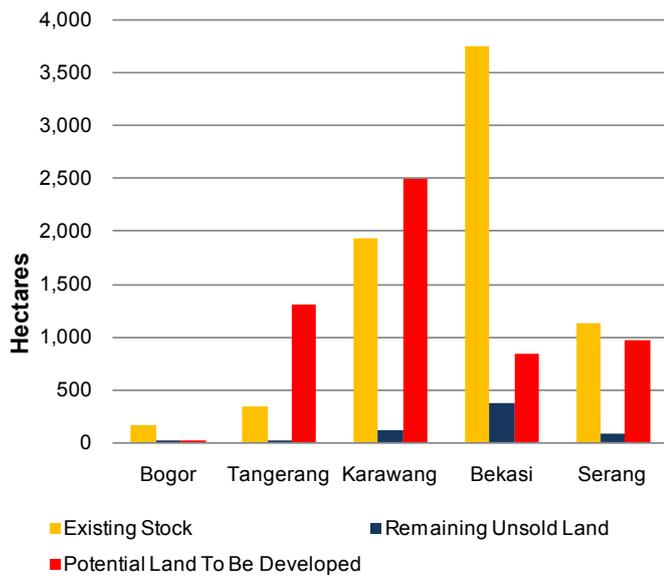
The 2016 transaction activities in the industrial estate appear to have weakened, particularly because corporations have not taken any position to buy. Such condition also characterised the supply situation for the quarter with few construction activities.

More and more industrial estates are focusing on selling commercial and residential developments to optimise their profit from vacant lands. Furthermore, with the plan to improve transportation infrastructure, Bekasi in particular will be transformed into a modern city with the future operation of the LRT (Light Rail Transit), to allow city access to and from Jakarta. There are massive apartment projects in Bekasi, as well as other commercial functions such as hotels, shopping centres and even office buildings.

For some time, Bekasi has had limited industrial land availability. Two industrial estates revealed potential enquiries for land, but in a substantial amount that they cannot fulfil because of land availability. Many big corporations will consider Bekasi in their top list of industrial location. On the other hand, industrial estate operators in this region foresee this as an opportunity, as they still have abundant land stock to be developed. But again in such market situation, the construction cost to open new lands has got to be justifiable with potential sales.

The number of companies operating in industrial locations in the eastern part of the Greater Jakarta area has grown in size. Likewise, middle-class population also grew in number, particularly in Bekasi and Karawang. Land in these regions is becoming commercially valuable. In some cases, vacant lands allocated for industrial use could be transformed into more expensive land for commercial or residential uses. A few industrial estates have already started commercial development, benefitting from the increasing number of operating companies.

Industrial Land Stock Status in Some Active and Future Industrial Estates



Source: Colliers International Indonesia - Research

Land Sales Activities

Thus far, Q4 2016 has been the best quarter for the whole year in term of sales volume. Total sales this quarter accounted for 68.7 hectares, with Serang region recording the highest sales compared to Bekasi, which registered the biggest sales last quarter. Two industrial estates in Serang outstripped the total sales recorded by four industrial estates in Bekasi. The amount of sales in Karawang was much lower than Bekasi or Serang. However, this quarter's sales in Karawang were the highest in 2016. Setting aside this year's sales performance that represents 50% of the total sales in 2015, the gradual increase in sales volume for the last four consecutive quarters suggests a rising confidence amongst industrialists. In fact, if we excluded single huge transactions that took place in Modern Cikande last year, the overall sales performance in 2016 was basically about the same as that of last year.

Total sales in Q4 2016 were 68.7 hectares, which brought the overall sales this year to 174.9 hectares, mainly composed of the transactions made in Bekasi (97.2 hectares). The main contributor to the total sales in Bekasi was GIIC, which registered more than half of the total transactions in this region. Meanwhile, two industrial estates in Serang could contribute a fair amount of sales this year, due to the consistent sales made by the two. On the other front, Karawang, which is one of the most favourite industrial locations in the Greater Jakarta area, only registered 23.6 hectares for the whole 2016, particularly because of the limited industrial land stock.

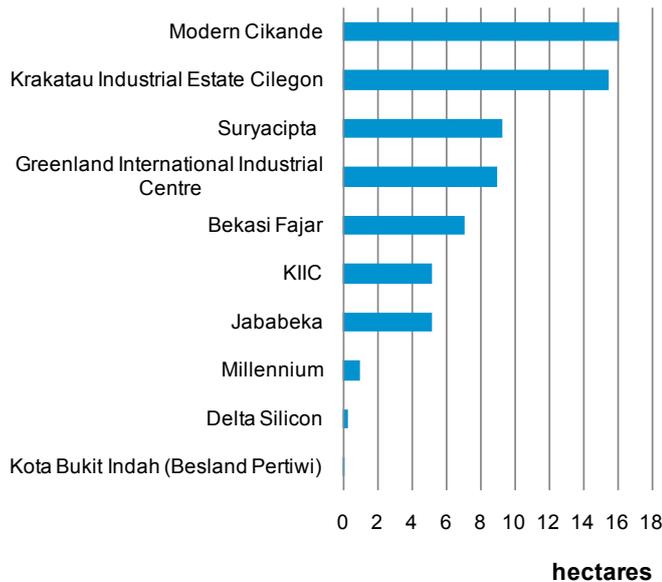
From the two active industrial estates, Serang concluded 31.6 hectares this quarter, the highest so far, and brought the total sales this year to 49.1 hectares. This quarter has been the most impressive period for KIEC that sold significant amounts of land to a big Korean chemical company. This company basically bought around 47 hectares of land, comprising 32.5 hectares that belong to the parent company of KIEC and 14.5 hectares of KIEC-owned asset, thus we only recorded 14.5 hectares land sold by KIEC. Another small transaction in KIEC was the expansion of a local smelter company that took around one hectare. Meanwhile, Modern Cikande again had the highest sales this quarter with a total of 16.1 hectares comprising of a local power plant (11.2 hectares), Chinese diaper maker (almost 4 hectares), and other smaller transactions from plastic injection and food processing. All of these transactions were new industries in this estate.

The amount of land being transacted in Bekasi lessened compared to the previous quarter, accounting for 21.5 hectares or not even half of the total Q3 2016 sales. Again, despite selling less land this quarter, GIIC recorded the highest sales compared to other industrial estates in Bekasi, totalling to almost 9 hectares. GIIC sold land to two investors in the food and automotive industries. Another moderate amount of transaction was concluded by Bekasi Fajar, which sold more than 7 hectares to a local cosmetic company. Another notable transaction of 5.2 hectares was done by Jababeka this quarter. Lastly, Delta Silicon sold two warehouse units sitting on a total of 0.28 hectare.

Suryacipta hits the record high this quarter by selling two land plots, totalling to 9.3 hectares. A new auto parts company from Japan bought 6 hectares of land in Suryacipta, as well as a new electronics company from China that took 3.3 hectares. These sales were the highest in Karawang for the last couple of years. Another single transaction was concluded by KIIC and a new foreign fragrance company that acquired around 5.2 hectares. In total, industrial estates in the Karawang region sold around 14.5 hectares this quarter.

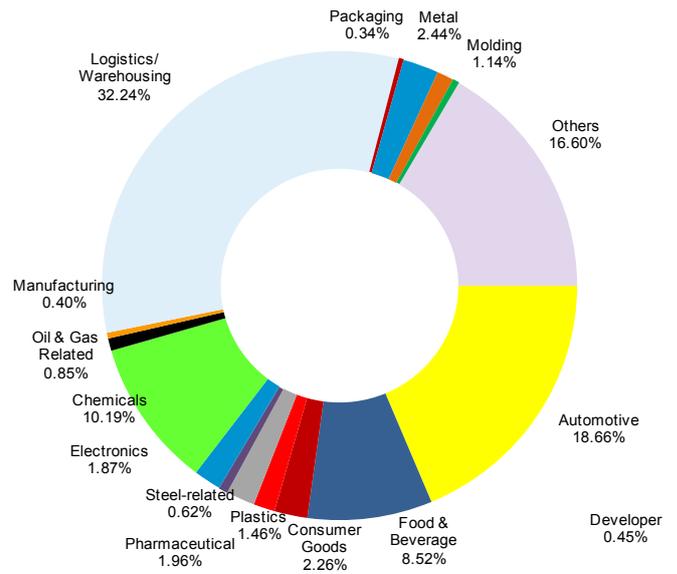
Thus far, we only recorded one hectare of sales made by a lubricant company at Millennium industrial estate in Tangerang Regency.

Land Absorption in Q4 2016



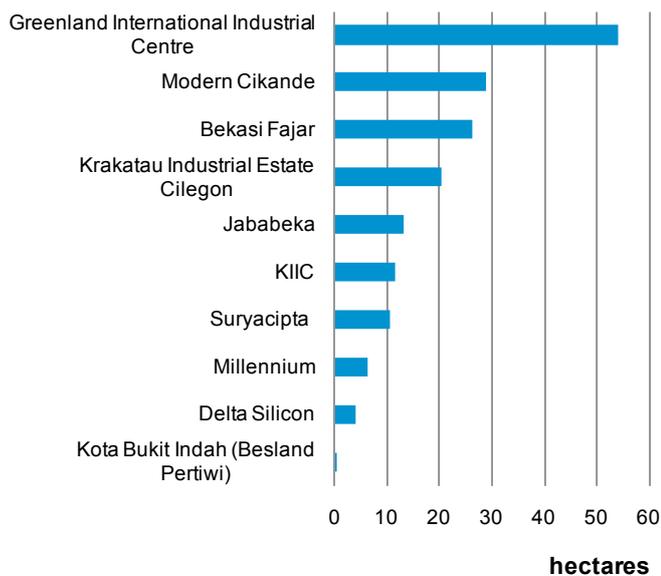
Source: Colliers International Indonesia - Research

Types of Active Industries During 2016



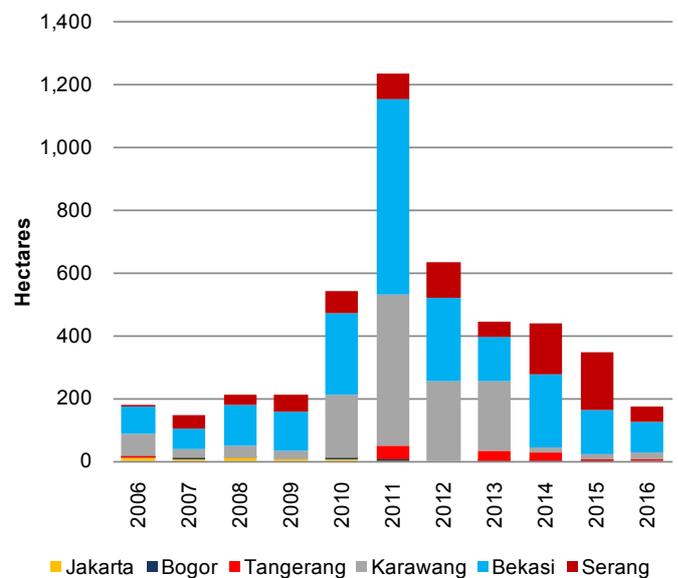
Source: Colliers International Indonesia - Research

Land Absorption During 2016



Source: Colliers International Indonesia - Research

Annual Industrial Land Absorption



Source: Colliers International Indonesia - Research

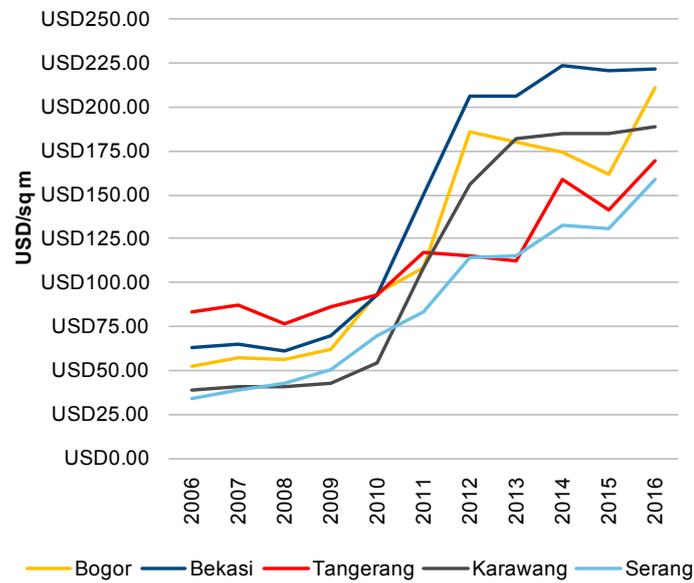
Land Price

Maintaining price and allowing more room for negotiation characterised the general transactions in 2016. Landlords were generally in the position to offer more attractive prices, particularly for substantial transactions with considerable size. We identified several deals with favourable discounts, particularly those in industrial estates with sales target to catch up. Several industrial estates submitted a lower price list as compared to the previous period. This could be discerned as two conditions: first, because the landlords find it necessary to show that they are now willing to talk about price, and second, because they report different land plots with different price lists.

Lowering the asking price by as much as 10% was quite common. One industrial estate under construction confidently asked for a price higher than the average market rate, but had to reduce by 15% and still found it difficult to sell the land, because buyers wanted a much lower price.

On the contrary, industrial estates, such as Millennium in Tangerang, confidently introduced a new price list up by 20% this quarter, as a response to the continuing enquiries and limited ready-to-use land stock to sell. Similarly, one industrial estate in Bogor introduced very high price considering such land plot within industrial estate is not widely available in Bogor. Nevertheless, the increase in land price does not represent the general market condition. A large number of industrial developers are quite cautious about the sluggish market and therefore are in the position to be more favourable of any offer.

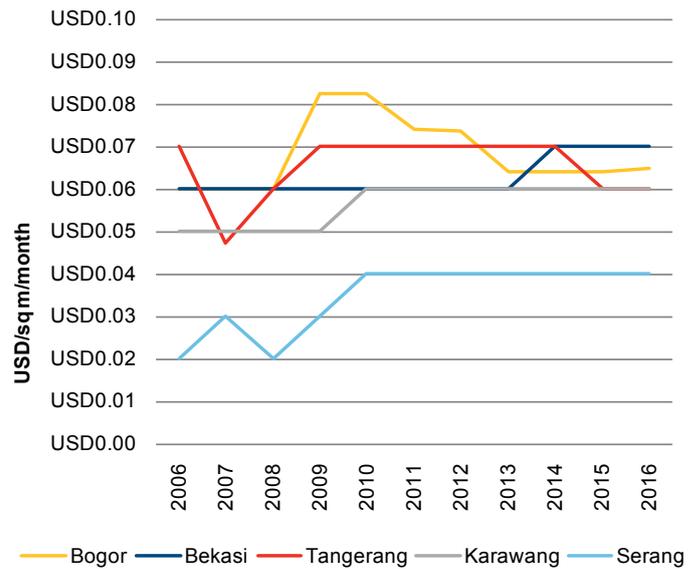
Greater Jakarta Industrial Land Prices



Source: Colliers International Indonesia - Research

Maintenance Cost

Greater Jakarta Industrial Maintenance Costs



Source: Colliers International Indonesia - Research

One industrial estate in Bogor introduced a new service charge free this quarter, up by 17% this quarter. This has been the second adjustment they made after the increment last year at the same period. Maintenance costs in all regions in the Greater Jakarta area have been stable for the last three years.

Industrial Land Prices and Maintenance Costs (in USD equivalent)

REGION	LAND PRICE (IN USD/SQ M)			MAINTENANCE COSTS (IN USD/SQ M/MONTH)		
	LOWEST	HIGHEST	AVERAGE	LOWEST	HIGHEST	AVERAGE
Bogor	120.0	301.9	211.0	0.06	0.06	0.06
Bekasi	181.1	241.5	222.1	0.06	0.08	0.07
Tangerang	188.7	151.0	169.8	0.03	0.08	0.06
Karawang	170.0	200.0	188.8	0.05	0.10	0.06
Serang	151.0	166.1	158.5	0.03	0.05	0.04

*1USD = Rp 13,249

Source: Colliers International Indonesia - Research

Concluding Thought

Although we are presented with a generally weak market throughout 2016, the gradual sales volume from quarter to quarter might indicate a sign of recovery. In fact, market will be cautious in due course. Market is enthusiastically expecting the policy set up by the government, including an economy deregulation package, to be implemented in the hope that the economy could confidently accelerate. Industries related to consumption or consumer goods, food and any basic need products would always propel the industrial sector. Any logistic requirements could very well be related to industries that are associated with food and consumer goods distribution.

Adequate economic growth combined with a more stable and firm government would be a good catalyst to drive industrial business in the future. Given this, we expect to see the continuation of industrial land construction, as well as more enquiries especially related from logistics and consumer goods.

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