

An Improving level of inquiries, but rents are still depressed

Ferry Salanto Senior Associate Director | Jakarta

The soaring vacancy rates, which are in line with the continued completion of more new office buildings, have changed the recent “tenant market” situation. However, the overall 2017 market performance has indicated a sign of recovery, albeit moderately, with escalating enquiries for office expansion particularly from tenants exploiting the currently low rents. In 2018, Indonesia will move ahead with a 5.3% GDP projection, which will provide an interesting investment spot for overseas fund to come in, particularly in e-commerce and co-working business at least for the next two to three years.

Forecast at a glance



Demand

Tenants will make the most of the currently low rental rates and the large number of available office spaces. We expect to see expansion and relocation activities in 2018, particularly from start-up companies and co-working space operators.



Supply

The additional office supply in Jakarta (CBD and outside the CBD) is estimated to reach nearly 900,000 sq m to bring the cumulative supply to over 10 million sq m by the end of 2018. Sudirman remains the preferred commercial area in the CBD with annual supply projection reaching about 530,000 sq m in 2018.



Vacancy rate

The vacancy rate in the CBD will likely hit above 20% in 2018, whilst vacancy in office buildings outside the CBD is projected to stay over 15%.



Rent

Taking into consideration the supply and demand factors, we estimate a moderate rental adjustment outside the CBD to go up by 2-2.5% in 2018. Meanwhile, the buildings in the CBD will experience more pressure from the upcoming huge supply, which may halt the growth of asking rental rate in the CBD.



Price

The expectation of higher rental rates may motivate more office purchasers. However, with a slight projection for rental increase, we believe that the initial impact on price may be limited to a 5% increase in 2018.

CBD

Office Space for Lease

Supply

Thus far, with nine new office buildings totalling to 501,927 sq m officially beginning operation, the annual supply in 2017 has been the highest. After calculating supply reduction from the demolition of Wisma Sudirman, cumulative supply in the CBD was registered at 5.9 million sq m, reflecting a 9% growth YOY.

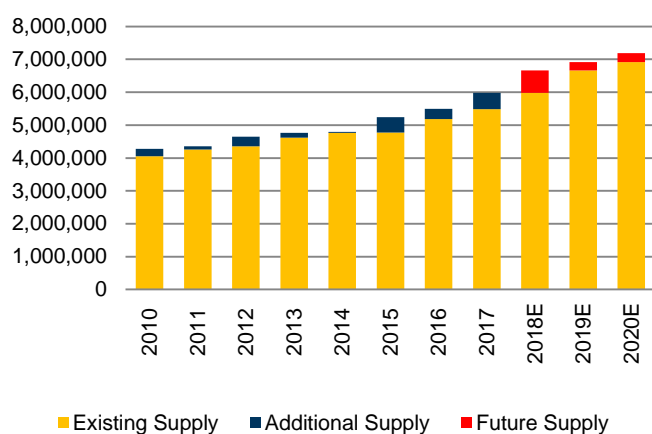
According to future office buildings' completion schedule, 2018 will still anticipate large quantities of space from at least 10 office buildings, for a total of about 630,000 sq m.

NEWLY OPERATING OFFICE BUILDING IN 2017

OFFICE BUILDING	LOCATION	SGA (SQ M)	COMPLETION TIME	MARKETING SCHEME
Convergence	HR Rasuna Said	36,367	Q1	For Lease & Sale
Menara Pertiwi	Mega Kuningan	41,456	Q1	For Sale
Satrio Tower	Satrio	31,604	Q1	For Lease
Tokopedia Tower	Satrio	70,000	Q2	For Lease & Sale
Sopo Del Tower A	Mega Kuningan	64,000	Q2	For Lease & Sale
Telkom Landmark Tower II	Gatot Subroto	65,000	Q3	For Lease
Menara Palma 2	HR Rasuna Said	50,000	Q4	For Lease
Pacific Century Place Tower	Jend. Sudirman	90,500	Q4	For Lease
Mangkuluhur Tower	Gatot Subroto	53,000	Q4	For Lease & Sale

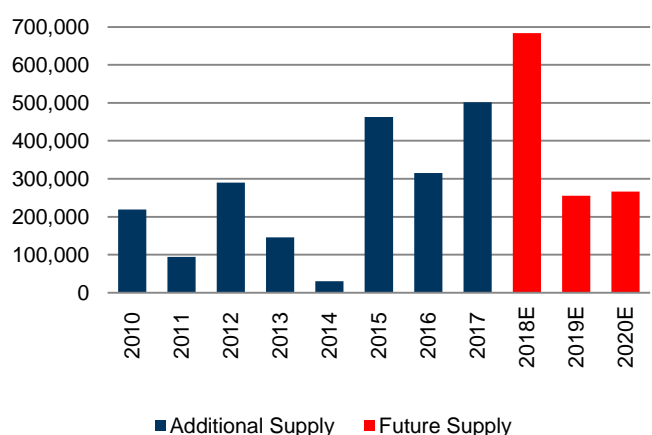
Source: Colliers International Indonesia - Research

Cumulative Supply



Source: Colliers International Indonesia - Research

Annual Supply

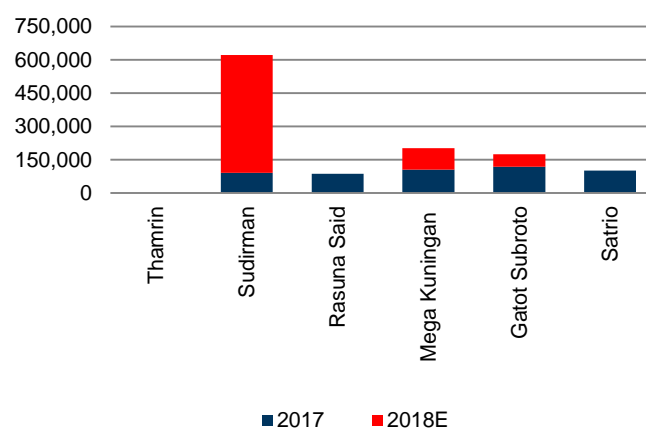


Source: Colliers International Indonesia - Research

Currently, only 24% of the total office stock is strata-title space for sale, with the highest growth recorded in 2017 and 2018. The total size of office spaces for sale in

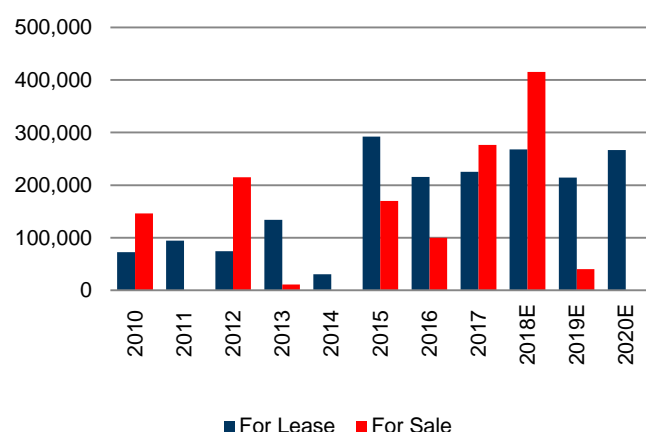
2017-2018 is approximately 560,000 sq m or 49.6% of the total stock in that period.

Annual Supply by Sub-market (2017 - 2018E)



Source: Colliers International Indonesia - Research

Annual Supply Based on Marketing Scheme



Source: Colliers International Indonesia - Research

NEW PIPELINE

OFFICE BUILDING	LOCATION	SGA (SQ M)	MARKETING SCHEME	STATUS DEVELOPMENT
2018				
The Tower	Gatot Subroto	56,492	For Sale	Under Construction
Prosperity Tower	SCBD	71,545	For Sale	Under Construction
Treasury Tower	SCBD	139,000	For Sale	Under Construction
Revenue Tower	SCBD	40,000	For Lease	Under Construction
Sequis Tower	SCBD	78,000	For Lease	Under Construction
Sudirman 7.8 (Tower 1)	Sudirman	52,000	For Sale	Under Construction
Menara Astra	Sudirman	80,000	For Lease	Under Construction
World Capital Tower	Mega Kuningan	72,000	For Lease & Sale	Under Construction
World Trade Centre 3	Sudirman	70,000	For Lease	Under Construction
2019				
Sopo Del Tower B	Mega Kuningan	24,300	For Sale	Under Construction
Lippo Thamrin Office Tower	MH Thamrin	16,500	For Sale	Under Construction
T Tower	Gatot Subroto	24,000	For Lease & Sale	Under Construction
Thamrin Nine	MH Thamrin	97,500	For Lease	Under Construction
2020				
Millenium Centennial Tower	Sudirman	93,588	For Lease	Under Construction
Social Security Tower	HR Rasuna Said	23,500	For Lease	Under Construction
Graha Binakarsa	HR Rasuna Said	20,000	For Lease	Under Construction
Chitaland	Satrio	90,000	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
Gayanti City	Gatot Subroto	25,000	For Lease	Under Construction

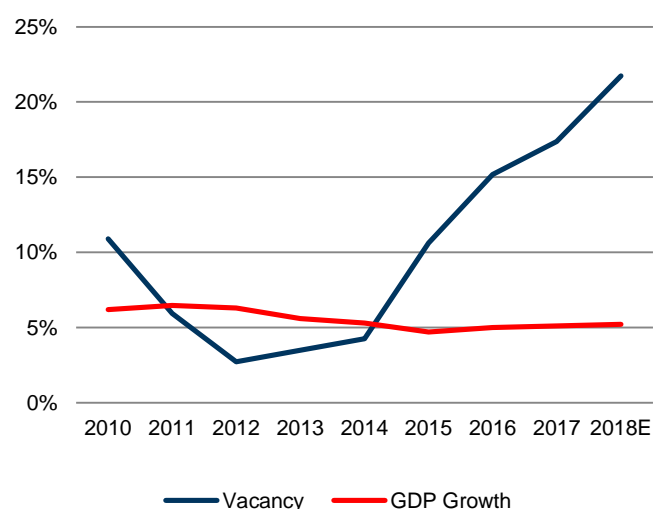
Source: Colliers International Indonesia - Research

Demand

With a continuing weakening trend, average occupancy rate edged down moderately QOQ to 82.6%, or a decline of about 2.2% YOY. This approximately left around 1 million sq m of vacant space as at the end of 2017.

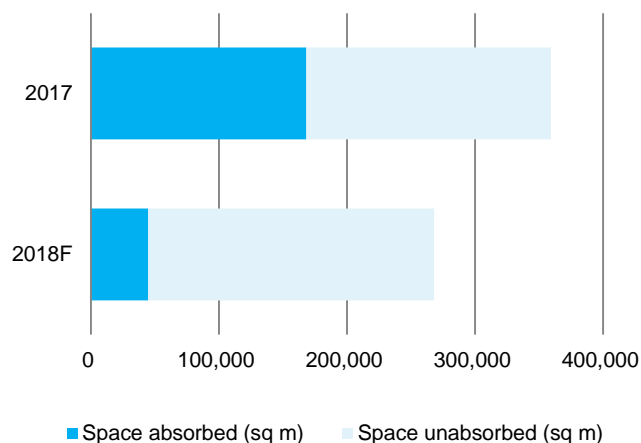
Of the total 359,104 sq m of new office spaces available in 2017, about 47% has been absorbed, thanks to several prominent companies such as Tokopedia, Hanabank, BCA, Excelcomindo and Garena, amongst others that have become major tenants of new office buildings that started operation in 2017.

Annual Vacancy and GDP Growth



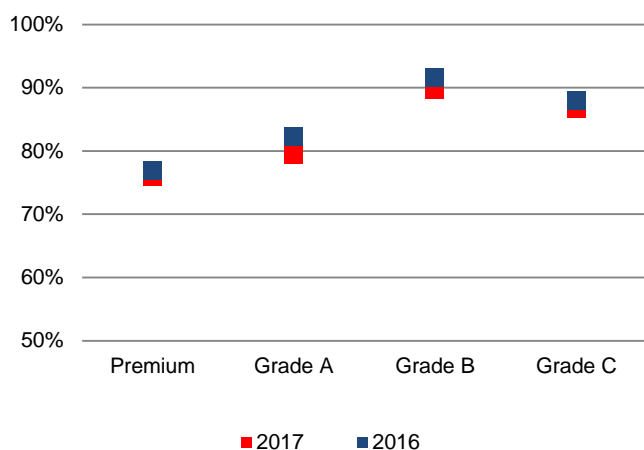
Source: Colliers International Indonesia - Research and Indonesia Statistics

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



Source: Colliers International Indonesia - Research

Occupancy Rates Based on Building Grade



Source: Colliers International Indonesia - Research

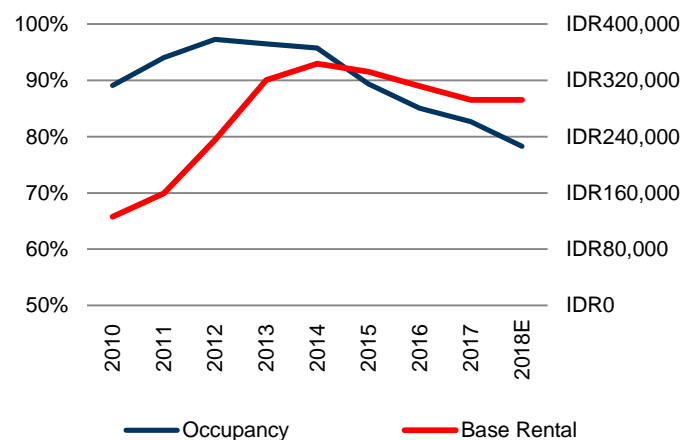
Nowadays, due to exorbitant land value, any new commercial building in the CBD should be built in accordance with Grade A or above specifications in order to meet investment viability. Having said that, for the last couple of years, every new building in the CBD has always been Grade A or Premium Grade building, which led to an increase in vacancy, particularly during this tenants' market condition. The overall occupancy rates for Grade A and Premium Grade office buildings still registered at around and below 80% respectively. With supply projection being dominated by high grade office buildings, the occupancy for these high grade buildings will further decline in 2018.

Rents

The declining occupancy trend added more pressure to landlords in setting higher rental tariff. From Q3 2016 to Q3 2017, rental rates fell by almost 15%. In this quarter,

rent stabilised and was registered at IDR292,374/sq m/month.

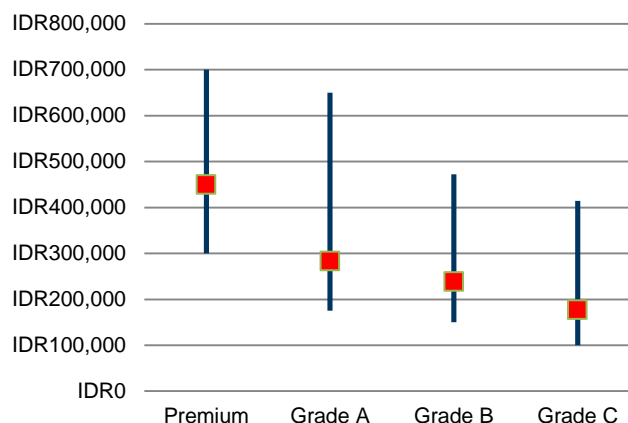
Average Asking Rents and Occupancy Rates



Source: Colliers International Indonesia - Research

Most future office buildings in Sudirman that are scheduled for operation in 2018 are quite sanguine in offering rents above the average market rates. This will create a counterbalance for the market in anticipation of a large upcoming supply and expectedly, average rent would stay relatively flat in 2018.

Asking Rents Based on Building Grades

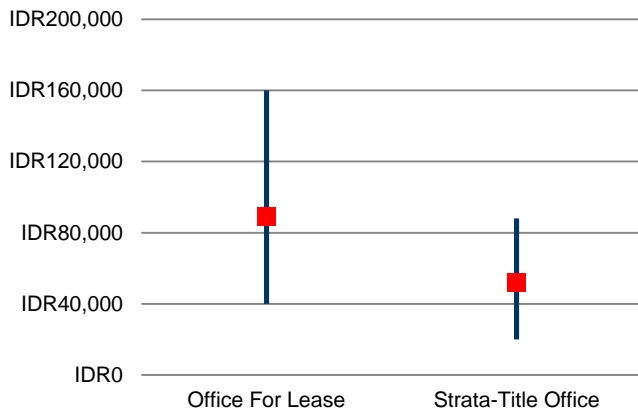


Source: Colliers International Indonesia - Research

Service Charges

Since the beginning of 2016, service charges have been relatively stable in the CBD. Four newly operating office buildings in 2017 quote their tariffs above market average, but this only pushes less than 1% increase YOY to IDR79,883/sq m/ month. We anticipate a relatively stable figure with the expectation that existing buildings will maintain their maintenance cost in 2018. Service charges will range between IDR50,000 and IDR115,000/sq m/month next year.

Service Charges Based on Marketing Scheme

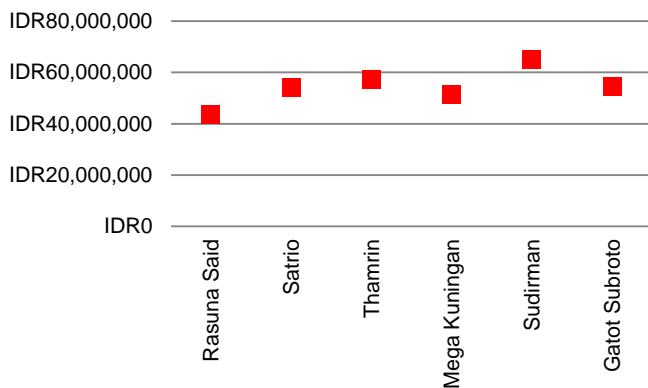


Source: Colliers International Indonesia - Research

Strata-title

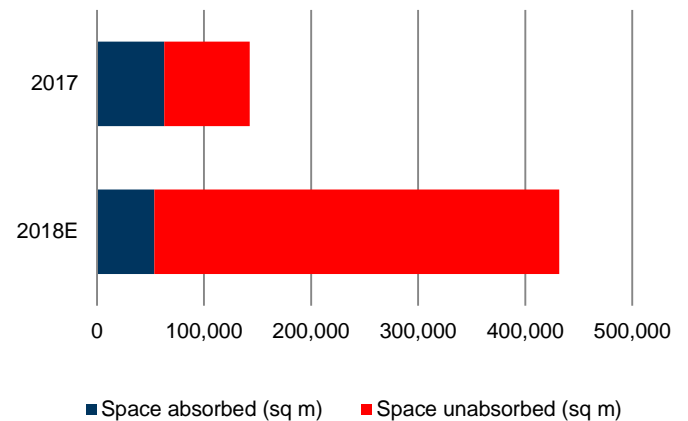
Currently, 86% of the total 1.7 million sq m strata-title office supply (including those under construction) was already sold. However, the annual absorption in 2017 was 30% lower than those in 2016. This also impacts the average price, which was stuck at IDR55.5 million/sq m in 2017, similar to the previous year.

Average Asking Prices in the CBD Based on Area



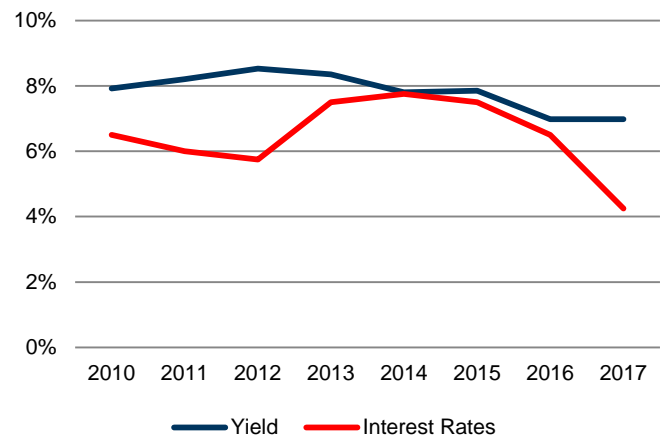
Source: Colliers International Indonesia - Research

Pre-Committed Absorption of Office Building for Sale in 2017 – 2018E



Source: Colliers International Indonesia - Research

Interest Rates and Office Yield



Source: Colliers International Indonesia - Research

The overall high vacancy in the office market, which led to the declining rental trend, may hold buyers/investor-type of buyers to purchase new strata-title office spaces, and thus we anticipate asking prices to grow only moderately in 2018.

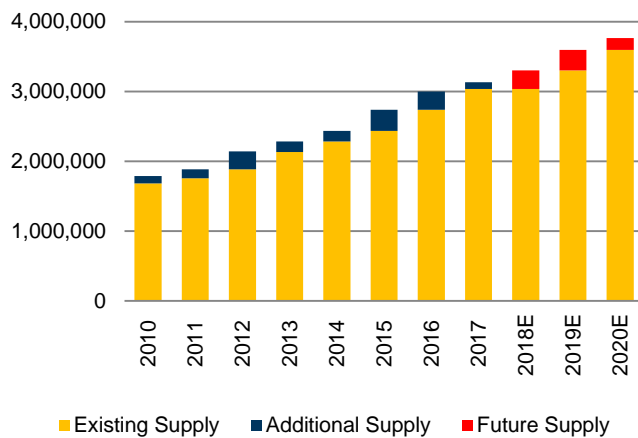
Outside the CBD

Office Spaces Offered for Lease

Supply

The number of new office supplies in 2017 in other areas outside the CBD was lower than in the previous year; only three new office buildings totalling around 96,000 sq m. The cumulative supply is therefore recorded at 3.1 million sq m as at the end of 2017, reflecting 5% growth YOY.

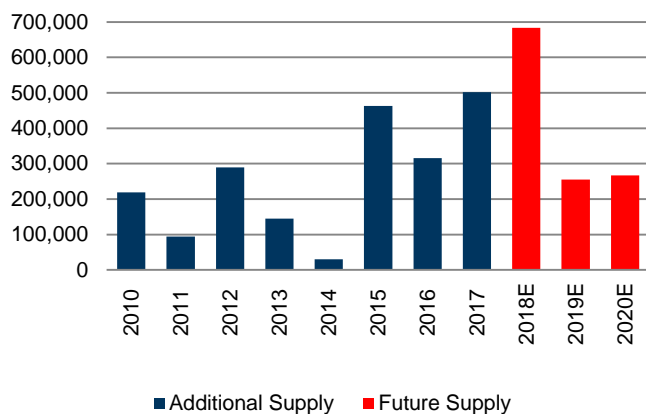
Cumulative Supply



Source: Colliers International Indonesia - Research

The increase in office stock will be quite significant in 2018 and 2019. Twelve future office buildings are expected to complete construction to bring about 270,000 sq m of new supply in 2018. The large amount of supply projection in 2018 is more due to the postponement of several office buildings that were supposed to have started operation in 2017.

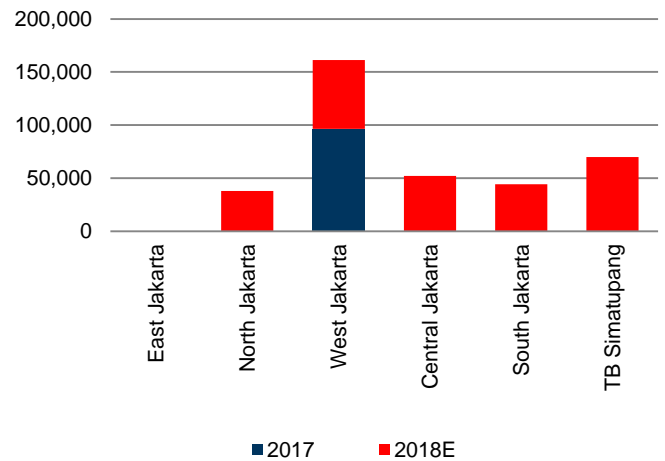
Annual Supply



Source: Colliers International Indonesia - Research

All regions outside the CBD had actively contributed new office stocks from 2015 to 2017, except East Jakarta. For the last 20 years, there have been no operating commercial office buildings in East Jakarta. The ongoing LRT (Light Rail Transit) construction that connects some parts of East Jakarta to the city centre may trigger office development, particularly those close to the LRT stations.

Annual Supply Based on Region



Source: Colliers International Indonesia - Research

The provision of advanced public transport facilities and the growing infrastructure development will serve as catalyst for the office market to expand, mainly to non-traditional commercial areas in Jakarta. The development of offices in West Jakarta proves this. Having large and available land stock, the operation of toll roads connecting the south-north and Tangerang areas drove land owners to build office buildings, the number of which has escalated by almost 30% over the last three years. LRT corridor 4 will also be developed in West Jakarta connecting Puri Kembangan and Tanah Abang along 9.3 kilometres, as stated in the Urban Train Network Map of Jabodetabek 2020 prepared by DKI Jakarta Provincial Government. Therefore, we predict that the growth of the office market in West Jakarta will continue going forward.

As one of the most active areas in contributing office spaces in South Jakarta, TB Simatupang already represents 57% of the total supply in South Jakarta itself or 30% of the total supply outside the CBD. Nevertheless, the growth of office supply in TB Simatupang has been declining in the last three years, mainly triggered by a slowing demand in 2015-2016. Future office stock in TB Simatupang will be relatively limited in 2018-2020.

NEWLY OPERATING OFFICE BUILDING IN 2017

OFFICE BUILDING	LOCATION	SGA (SQ M)	COMPLETION TIME	MARKETING SCHEME
Puri Indah Financial Tower	Puri Indah	38,500	Q1	For Lease & Sale
Gallery West	Kebon Jeruk	29,000	Q4	For Lease & Sale
Puri Matahari Tower	Kembangan	28,925	Q4	For Lease

Source: Colliers International Indonesia - Research

NEW PIPELINE IN OUTSIDE CBD (EXCLUDE TB SIMATUPANG)

OFFICE BUILDING	LOCATION	SGA (SQ M)	MARKETING SCHEME	STATUS DEVELOPMENT
2018				
Tamansari Parama	KH 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
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
Arcade Business Center	Pluit	22,000	For Lease	Under Construction
2019				
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	Casablanca	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 International Puri 2 Phase 3	Puri	15,000	For Lease	In Planning
2020				
Ciputra Twin Tower 1	Kemayoran	40,000	For Sale	Under Construction
Ciputra Twin Tower 2	Kemayoran	40,000	For Lease	Under Construction
Agung Sedayu Office Tower	Pantai Indah Kapuk	50,000	For Lease	In Planning

Source: Colliers International Indonesia - Research

NEW PIPELINE IN TB SIMATUPANG

OFFICE BUILDING	SGA (SQ M)	MARKETING SCHEME	STATUS DEVELOPMENT
2018			
The Sima	60,000	For Lease	Under Construction
2019			
Arkadia Tower G	30,000	For Lease	Under Construction
Beltway Office Park Tower 4	30,839	For Lease	In Planning
2020			
The Manhattan Square Tower 2	39,375	For Lease & Sale	In Planning

Source: Colliers International Indonesia - Research

Annual Supply Based on Marketing Scheme



Source: Colliers International Indonesia - Research

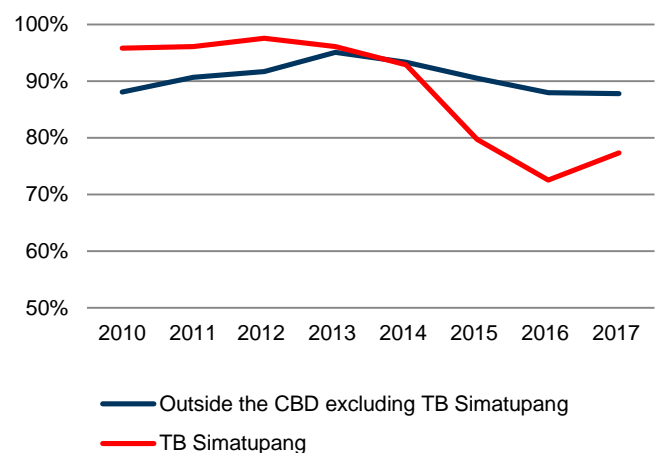
Demand and Occupancy

After a slight decline to 81.9% in Q1 2017, occupancy climbed gradually and is now registered at 83.7%. Most operating office buildings maintained their tenants, as it was in 2016, and the good performance of newly operating office buildings also helped bring average occupancy to rise modestly by 1.6% YOY.

The challenge of the office market outside the CBD remains to be the anticipated large future supply in 2018. Occupancy rate will drop by about 2% in 2018.

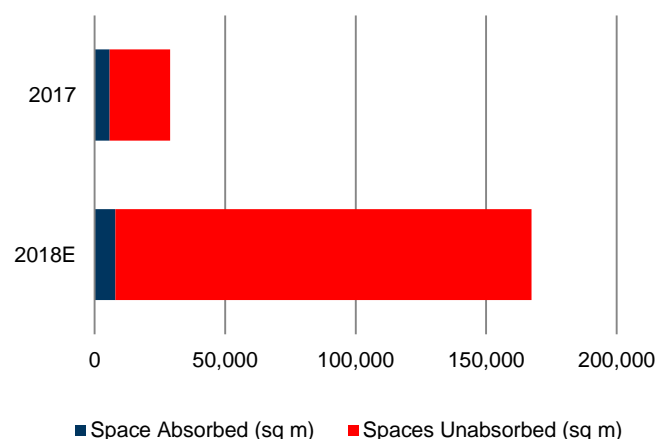
Information and Technology (IT), Insurance, and Banking still generate significant demand for new office buildings outside the CBD, especially in Central and South Jakarta. The western and northern regions will continue to benefit from the proximity and immediate access to the airport or seaport, to which the freight forwarding and shipping companies will expand their operation.

Occupancy Rates



Source: Colliers International Indonesia - Research

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

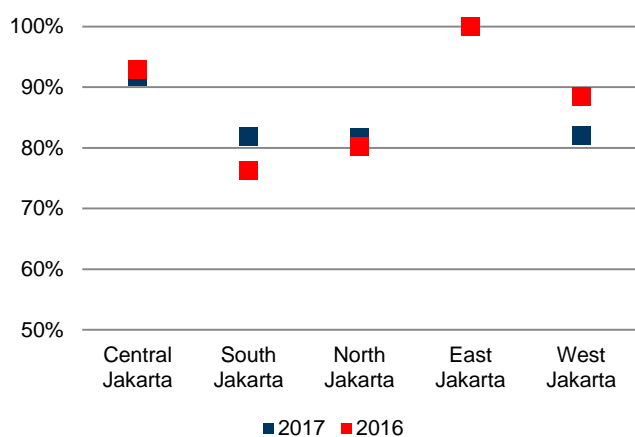


Source: Colliers International Indonesia - Research

As the most active areas in contributing office spaces, the continuing influx of new office buildings has inevitably led to declining occupancy in West and South Jakarta in the last two years. Three office buildings that

began operation caused occupancy rate in West Jakarta to fall 6.5% YOY to 82% in 2017. Conversely, after recording a drop in the previous year, occupancy rate climbed from 5.5% to 81.7% in South Jakarta in 2017. Today, less than 5% of the total office buildings in South Jakarta recorded occupancy rates below 50%; most of these are small buildings located in TB Simatupang and thus did not change the overall occupancy calculation. The average occupancy rate in TB Simatupang currently stays at 77.3%.

YOY Occupancy Rates Based on Area



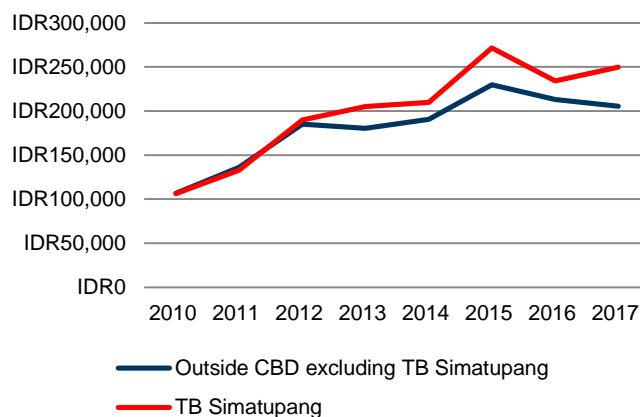
Source: Colliers International Indonesia - Research

Rents

Rent is very much impacted by the addition of new office buildings charging higher occupancy. To date, the average rent for office buildings outside the CBD was recorded at IDR227,826/sq m/month, which is a modest increase of 4.6% QOQ. On the back of relatively stable demand going forward, rent may climb in 2018, albeit in a slow pace of around 2-2.5%.

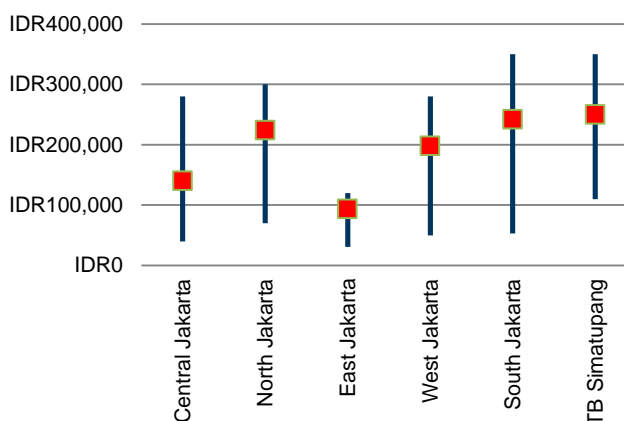
Excluding West Jakarta, all areas underwent an increase in rental rates, with South Jakarta as still the most expensive area outside the CBD. Rents in TB Simatupang moved upward by 6.8% to IDR249,883/sq m/month. In line with improving occupancy rate, the average rent at TB Simatupang is projected to grow 6.5-7.0% in 2018.

Average Asking Rents



Source: Colliers International Indonesia - Research

Range of Asking Base Rents Based on Region

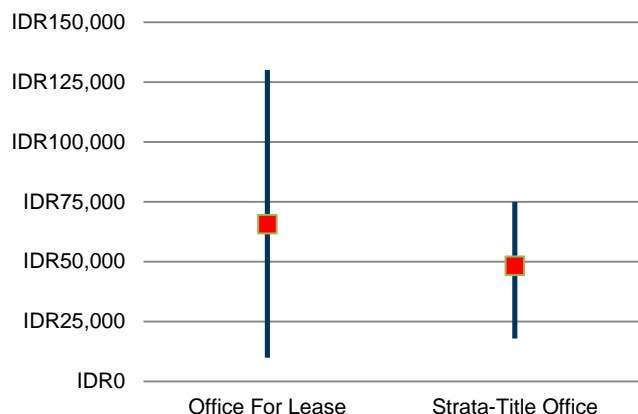


Source: Colliers International Indonesia - Research

Service Charges

As at the fourth quarter of 2017, average service charges were recorded at IDR55,679/sq m/month outside the CBD, reflecting a 3.3% YOY drop. Compared to other regions, South Jakarta continues to capture the most expensive maintenance cost, due to the overall quality specification of the buildings, mainly those located in TB Simatupang.

Range of Service Charges Based on Marketing Scheme

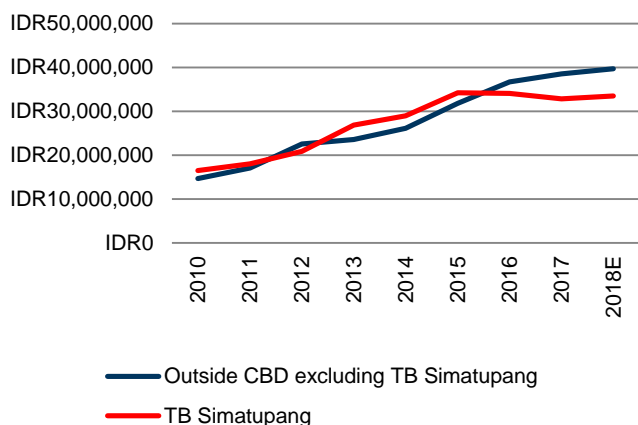


Source: Colliers International Indonesia - Research

Strata-title

Price of strata-title office buildings outside the CBD rose modestly by 2.3% YOY to an average of IDR36.3 million/sq m.

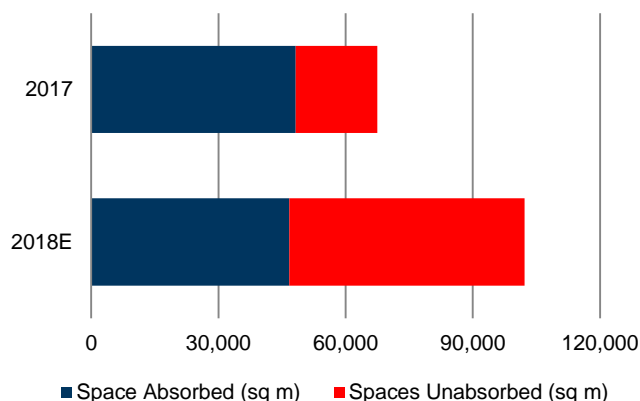
Average Asking Price



Source: Colliers International Indonesia - Research

Outside the CBD, there are about 175,000 sq m of unabsorbed/unsold spaces, 25% of which are located in TB Simatupang. Average asking prices in TB Simatupang decreased by 4.9% YOY to IDR32.8 million/sq m, most likely because some office buildings are offering prices lower by 5-15%. Looking ahead, price will probably increase, given the absence of new strata-title buildings at least up to the next two years.

Pre-Committed Absorption at Office Building for Sale in 2017 – 2018E



Source: Colliers International Indonesia - Research

Concluding Thought

Given the sluggish economy and current oversupply, tenants will continue to be price-sensitive at least in one or two years. They are now exploiting the circumstances and trying to obtain office spaces at relatively low prices but still with good quality. So, even with the fact that landlords will have low expectations over price or rent to grow, at least market will have the opportunity to absorb the abundant supply, despite the low rent.

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