

Ferry Salanto Senior Associate Director | Jakarta

Over the last five years, Jakarta's retail market was in recession; the vacancy rate did not show any increasing trend as more shopping centres were completed. Previously, occupancy showed an improving trend at the first half of 2017. A huge number of additional supplies caused occupancy to decline again and registered relatively moderate up to the end of 2017. Some department stores closed shop in 2017 and this trend is expected to continue up to Q1 2018. Despite the drop in occupancy, both the average asking rents and service charges increased 5% YOY.

Occupancy and average base rents were recorded relatively stable in Greater Jakarta in 2017. Nevertheless, service charges increased significantly as supported by some shopping centres that pegged their service charge higher than 20% YOY.

Forecast at a glance



Demand

A number of foreign retailers are still eyeing to invest in Indonesia. However, there will be changes in the pattern of expansion as society's consumption patterns are also changing. For instance, middle-class consumption may now fulfil leisure needs. Therefore, incoming foreign retail investments will adjust to follow such pattern. Investment in the food and beverage retail sector in Indonesia is predicted to remain vibrant in 2018. On the contrary, interest in fashion or accessories retail investment in Indonesia will decline. However, players that have already entered Indonesia will continue to expand.



Supply

Retail supply is expected to increase both in Jakarta and Greater Jakarta up to 2019, despite moderately. We project only one shopping centre to meet completion and bring around 60,000 sq m of new retail spaces in Jakarta in 2018. Meanwhile in Greater Jakarta, two shopping centres are expected to be completed and bring the additional retail spaces of around 110,000 sq m.



Occupancy

In 2018, we predict that the battle between enquiry for retail spaces and the closing trend of stores due to tight competition amongst tenants will continue. From this projection, we predict average occupancy rates to increase by less than 1% only in 2018.



Rent

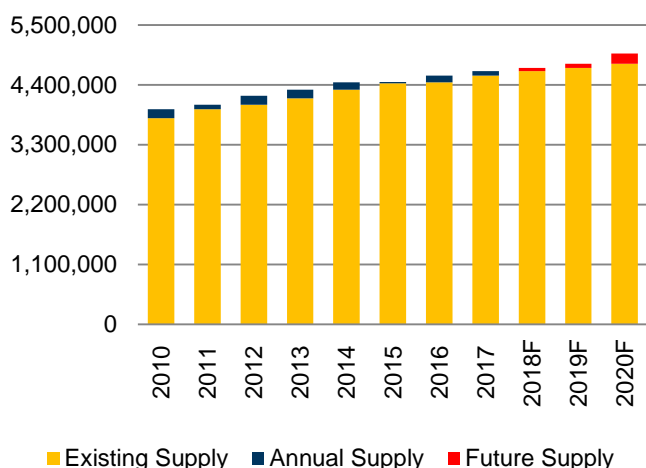
Bank Indonesia estimates that the rupiah exchange rate will be stable in 2018, but slightly depressed due to the interest rate hikes in the US. Stable exchange rate is expected to maintain the value of imported goods to Indonesia, especially middle-class retail merchandise. Coupled with political conditions that are expected to be more conducive even though Indonesia will enter political years 2018-2019, more people will go back to shopping and excitement for the retail market will be revived. Nevertheless, a relatively small projected demand could cause the average asking rents to moderately increase in 2018.

Jakarta

Supply

The cumulative retail supply in Jakarta only grew 1.8% YOY as of the end of 2017, lower than the previous year at 2.7%. In 2017, new additional retail supply was only available in the second semester from two shopping centres, including Aeon Mall Jakarta Garden, which is the second mall by Aeon in Indonesia that began operation in Q3 2017, and the re-opening of City Plaza Jatinegara, (previously known as Plaza Jatinegara) after being terminated in 2012. These two newly operating malls brought about 80,000 sq m of retail spaces and delivered the cumulative retail supply in Jakarta to 4.6 million sq m in 2017.

Jakarta Cumulative Retail Supply

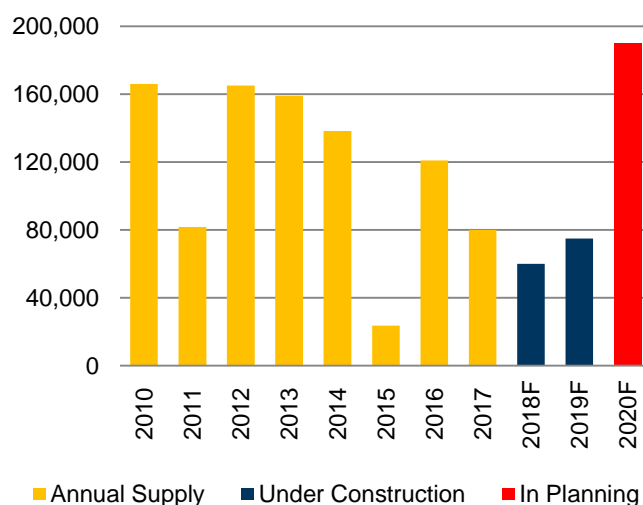


Source: Colliers International Indonesia - Research

There were no significant changes on the composition of total retail spaces for lease and for sale, which remains stable at 70%:30%. There are currently around 3.2 million sq m of space for lease, contributed by 91 malls, as compared to retail space for sale from 38 trade centres, totalling to 1.4 million sq m.

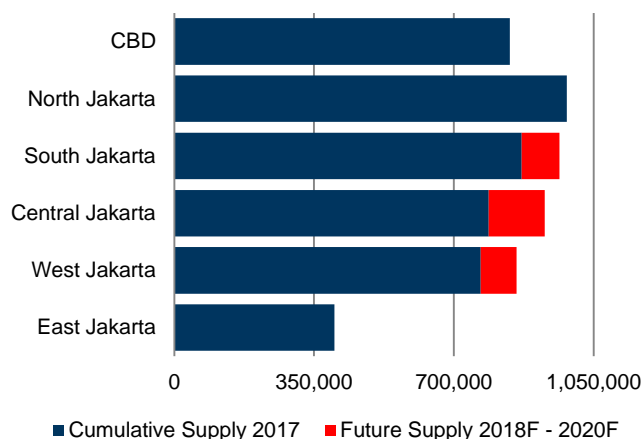
Retail centre development has grown moderately since the issuance of retail moratorium in Jakarta. Six shopping centres are scheduled for completion from 2018 to 2020, providing a total of around 325,000 sq m. In 2018, retail supply will be limited to New Harco Glodok but with sizeable space offered for sale.

Jakarta Annual Retail Supply



Source: Colliers International Indonesia - Research

Jakarta Retail Supply Distribution Based on Region



Source: Colliers International Indonesia - Research

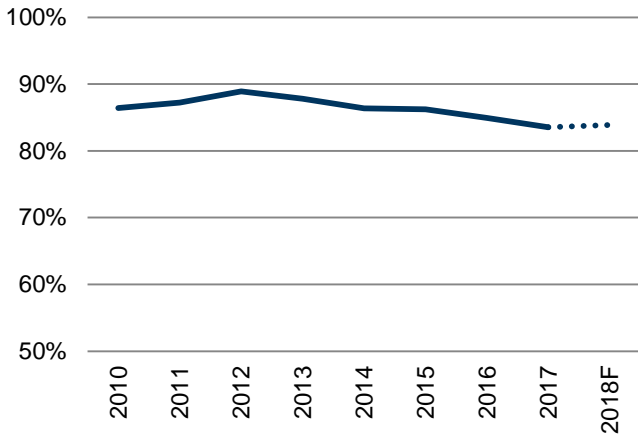
NEW SUPPLY PIPELINE					
SHOPPING CENTER	LOCATION	REGION	DEVELOPER	NLA (SQ M)	DEVELOPMENT STATUS
2018					
New Harco Plaza	Glodok	West Jakarta	Agung Podomoro Land	60,000	Under Construction
2019					
Shopping Mall at South Gate	Lenteng Agung	South Jakarta	Sinarmas Land & Aeon	35,000	Under Construction
Holland Village Mall	Cempaka Putih	Central Jakarta	Lippo Karawaci Tbk	40,000	Under Construction
2020					
Pondok Indah Mall 3	Pondok Indah	South Jakarta	Metropolitan Kentjana	60,000	In Planning
Menara Jakarta Shopping Mall	Kemayoran	Central Jakarta	Agung Sedayu Permai	100,000	In Planning
Daan Mogot City	Daan Mogot	West Jakarta	China Harbour	30,000	In Planning

Source: Colliers International Indonesia - Research

Demand and Occupancy

Supply has been the determinant factor for occupancy performance. In the first semester of 2017, occupancy rate for Jakarta’s retail market was 86%, afterwards as of the end of 2017, it dropped to 83.6% mainly because committed tenants have yet to operate at the newly operating shopping centres such as Aeon Mall Jakarta Garden City and City Plaza Jatinegara.

Occupancy Rates in Jakarta



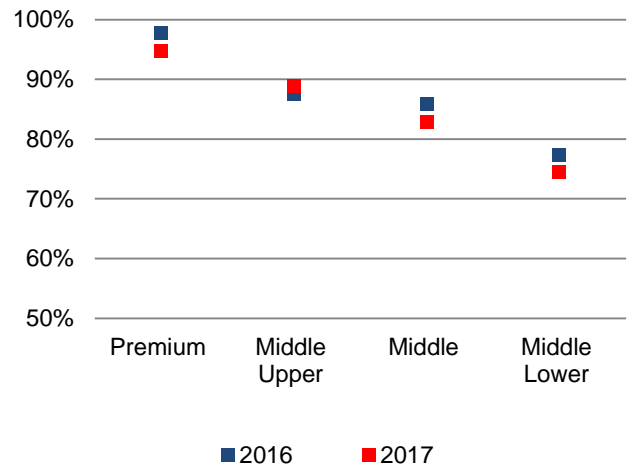
Source: Colliers International Indonesia - Research

The modern retail industry in Jakarta is facing challenges, which include the downturn in sales in accordance with the pressure in increasing living costs and other expenses that have shifted the pattern of public spending. Thus far, the retail market has received negative impact with the closing down of several anchor stores in 2017. In Jakarta, the decline in occupancy rates was also recorded in almost all classes of shopping centres. Simultaneously, premium and middle to middle

lower class shopping centres experienced occupancy drop by 3%, compared to the previous year.

With the absence of new shopping centres for lease in 2018, overall occupancy rate of shopping malls will rise to around 84%, mainly underpinned by the expansion of food retailers. Retail market and shopping trends are constantly evolving and changing. Consumers today are seeking a shopping experience. To meet and sustain such expectations in the longer term, shopping centres have to offer good quality public space and ease of movement, whilst providing meeting places such as coffee shops and restaurants where people can relax.

Occupancy Rates in Jakarta



Source: Colliers International Indonesia - Research

BIG TENANTS CLOSURE DURING 2017

STORE LOCATION	TENANT CLOSURE	REPLACEMENT
Puri Indah Mall	Keris Gallery	Metro Department Store
Lippo Mall Kemang	Debenhams	Matahari
Pacific Place	Metro	H&M
Senayan City	Debenhams (Q1 2018)	Uniqlo, Zara, Marks & Spencer (Q3 2018)
Pasaraya Blok M	Matahari	TBD
Pasaraya Manggarai	Matahari	TBD
Mall Taman Anggrek	Matahari	TBD
Blok M Mall	Ramayana	TBD

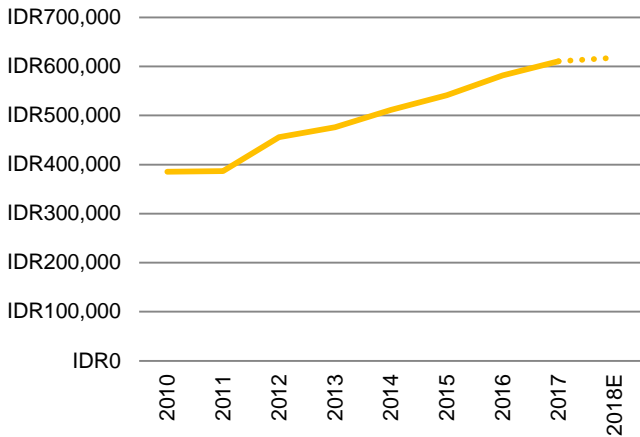
TBD: to be determined

Source: Colliers International Indonesia - Research

Base Rental Rates

Average rental rate was quite stable QOQ. For the whole year it increased by 5.7%, which brought the overall rate to IDR610,456/sq m/month in the last quarter of 2017. Some middle to middle-upper class shopping centres were quite confident to adjust rents, whilst rents for middle-low and premium class shopping centres were relatively flat.

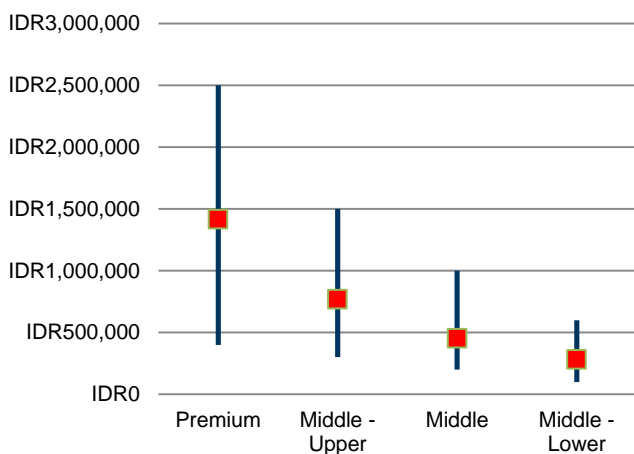
Average Rents in Jakarta



Source: Colliers International Indonesia - Research

Demand is projected to be very moderate which give more pressure to the landlord to adjust rent in 2018. We anticipate rent only increase by 1.5% - 2%.

Average Rental Rates Based on Mall Grade in Jakarta



Source: Colliers International Indonesia - Research

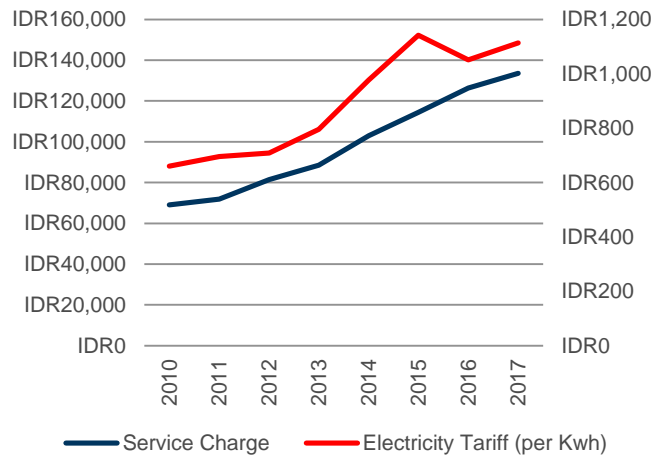
Service Charges

In Jakarta, the cost of service charges didn't change much in the last five years. The year-on-year increase was only registered at 5.7% to IDR133,528/sq m as at the end of 2017.

In general, service charge was only adjusted in the first half of the year and continued to stay relatively stable at the second half. On average, shopping centre landlords have adjusted their service charge quite reasonably in the last five years, up by 10-11% per annum.

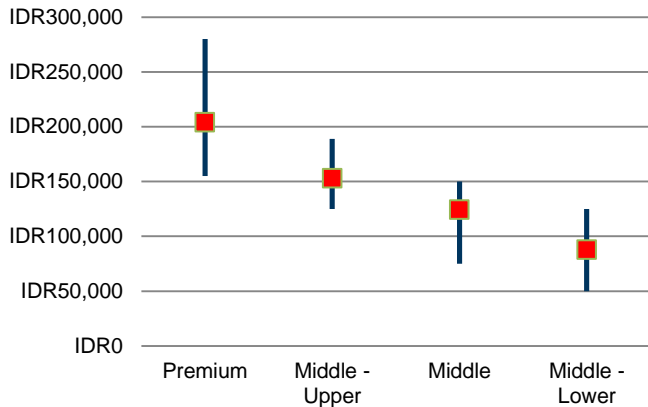
The regional minimum wages, inflation, electricity tariff and gas are driving factors for increasing service charges. Recently, Bank Indonesia predicts that inflation rate in 2018 could be below 3.5% without adjusting for commodity prices set by the government. This means the government is keeping fuel prices, electricity and gas tariffs stable in 2018. Previously, the regional minimum wage was raised by 8.7% and with such condition, we predict the average service charge is likely to grow around 10-12% in 2018.

Service Charges vs Electricity Tariff



Source: Colliers International Indonesia - Research

Service Charges Tariff Based on Mall Grade in Jakarta



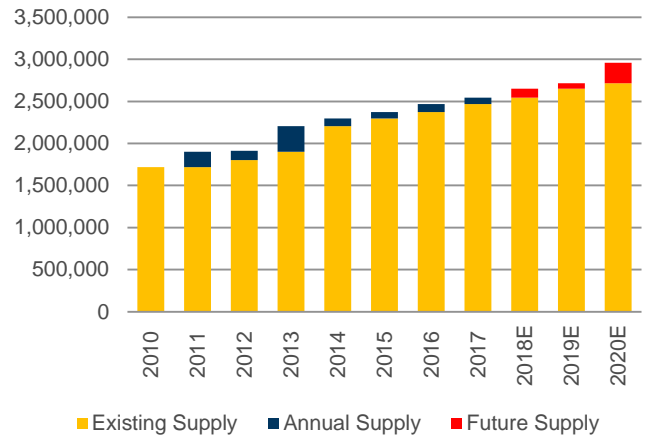
Source: Colliers International Indonesia - Research

Greater Jakarta (Bogor, Depok, Tangerang and Bekasi)

Supply

The total number of new retail spaces for 2017 stood at 77,367 sq m without any new shopping centres in Q4 2017. Thus, cumulative retail space supply was 2.5 million sq m, showing a marginal increase of 3.1% YOY in the Greater Jakarta area. The only two additional shopping centres in 2017 are part of a mixed-use development including Bekasi Trade Center (BTC) Mall (within BTC City compound) and Lagoon Avenue Mall (within Grand Kamala Lagoon), both located in Bekasi.

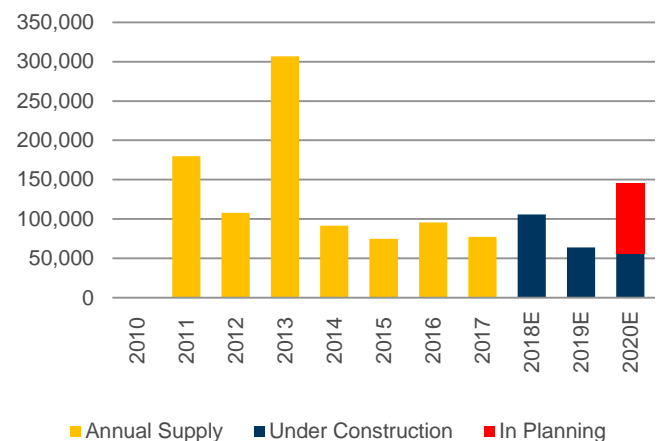
Cumulative Retail Supply in Jakarta



Source: Colliers International Indonesia - Research

The new retail centre developments will continue to be built in Bekasi, up to 2020. There are at least three shopping centre projects in the pipeline, composing around 55% of the total future supply in Greater Jakarta in 2018-2020. Bogor and Depok altogether will also contribute three retail centres during the same period but with smaller amount of space. Thus far, we have not heard any plan to construct a shopping centre in Tangerang.

Cumulative Retail Supply in Jakarta



Source: Colliers International Indonesia - Research

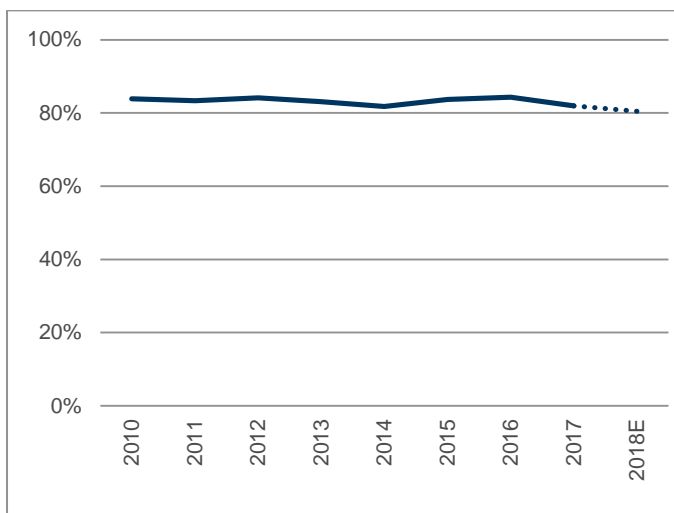
NEW SUPPLY PIPELINE

SHOPPING CENTER	LOCATION	REGION	DEVELOPER	NLA (SQ M)	DEVELOPMENT STATUS
2018					
Galeria Vivo Sentul	Sentul	Bogor	Megapolitan	35,000	Under Construction
AEON Mall Sentul City	Sentul	Bogor	AEON & Sentul City	71,000	Under Construction
2019					
Grand Dhika City Mall	Bekasi	Bekasi	Adhi Persada Property	24,000	Under Construction
Shopping Mall at Pesona Square	Juanda	Depok	Menara Depok Asri	40,000	Under Construction
2020					
Plaza Indonesia Jababeka	Cikarang	Bekasi	Plaza Indonesia Realty & Graha Buana Cikarang	55,685	Under Construction
AEON Mall Deltamas	Deltamas	Bekasi	AEON & Deltamas	90,000	In Planning

Source: Colliers International Indonesia - Research

Demand and Occupancy

Average Occupancy Rate in Greater Jakarta



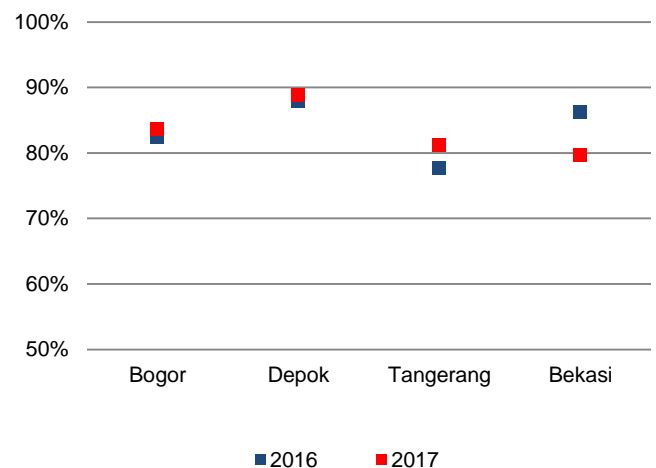
Source: Colliers International Indonesia - Research

For the entire Greater Jakarta area, average occupancy was relatively stable between 82% and 83% in 2016-2017. Almost all regions in Greater Jakarta reported an increasing occupancy YOY, except Bekasi. Two newly operating shopping centres brought occupancy to decline 6.5% YOY to 79.7% in Bekasi. Tangerang recorded the highest occupancy growth by 3.6% YOY to register at 81.3%, mainly fuelled by two shopping

centres in BSD. Apart from the BSD area, a shopping centre in Tangerang lost a department store tenant, but this did not change much the overall occupancy figure in the area.

Despite the fact that the economy is expected to grow, larger additional retail spaces for lease and unstable demand would likely forecast the average occupancy rates to register at 81% in 2018.

Occupancy Rates in Greater Jakarta Areas



Source: Colliers International Indonesia - Research

BIG TENANTS CLOSURE DURING 2017

STORE LOCATION	TENANT CLOSURE	REPLACEMENT
Supermal Karawaci	Debenhams	TBD

TBD: to be determined

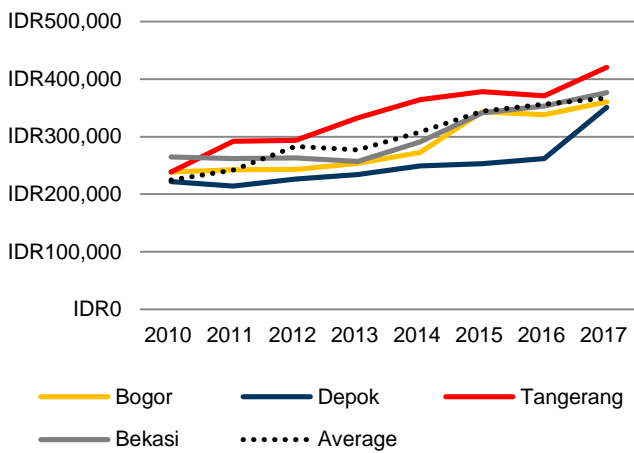
Source: Colliers International Indonesia - Research

Base Rental Rates

The YOY average rents were only up marginally by less than 3% for the Greater Jakarta area to record IDR365,879/sq m/month as of Q4 2017.

Some shopping centres in the Greater Jakarta area increase rent from 10% to 30% YOY but this did not change the overall rental figure for this area. All regions in the Greater Jakarta area showed increasing rental trends, significantly in Depok.

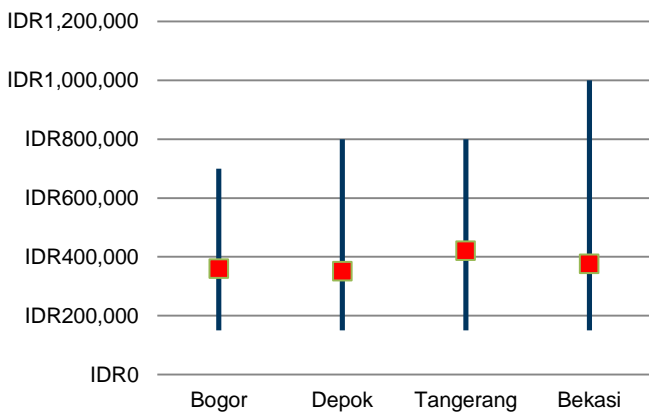
Average Rents in Greater Jakarta Based on Area



Source: Colliers International Indonesia - Research

With lower occupancy projection in 2018 the average rent is expected to increase modestly by 2-2.5%.

The Range of Rents Based on Area in Greater Jakarta

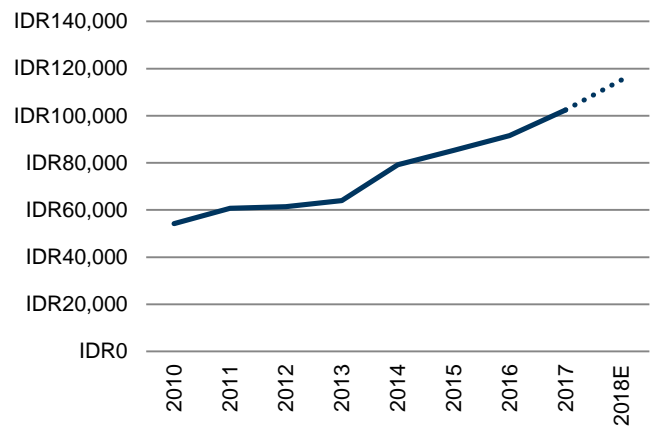


Source: Colliers International Indonesia - Research

Service Charges

In Greater Jakarta, the cost of service charges grew by around 10% per annum in the last five years. The current service charge was recorded at IDR102,440/sq m/month, an increase of 10.6% YOY. About 30% of the total shopping centres in Greater Jakarta set the service charge costs above average market prices and at least three shopping centres increased service charges by more than 20% in one year.

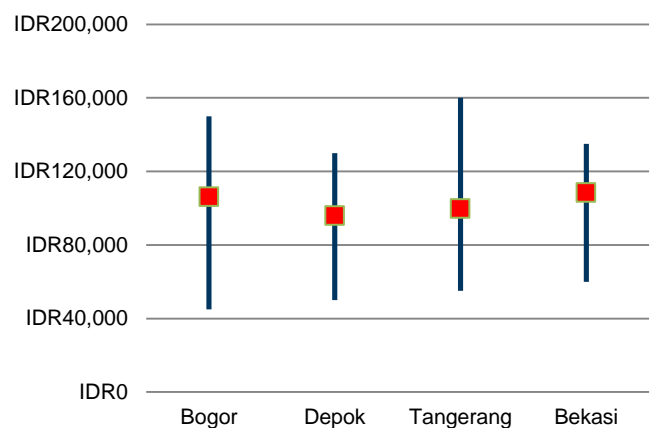
Service Charges in Greater Jakarta



Source: Colliers International Indonesia - Research

The plan to increase regional minimum wage in 2018 will determine the rise in service charge.

Service Charges Based on Area in Greater Jakarta



Source: Colliers International Indonesia - Research

Concluding Thought

There is a shift in consumption trends from non-leisure shopping needs to leisure activities. For owners or those who will build a mall, this trend is not a threat but can be a trigger to further evolve the concept of a mall. Innovation is at the forefront of the retail industry as companies develop new concepts to enhance customer experience and add value to the standard shopping trip.

Bank Indonesia estimates that the rupiah exchange rate will be stable in 2018, but slightly depressed due to the US interest rate hikes. Stable exchange rate is expected to maintain the value of imported goods to Indonesia, especially middle-class retail merchandise. Coupled with political conditions that are expected to be more conducive even though Indonesia will enter political years 2018-2019, more people will go back to shopping and excitement for the retail market will be revived.

The role of the government will also be eagerly awaited to enhance the competitiveness of the retail sector, as well as strengthen the synergy of traditional and modern retailers. Modern retailers hope to further upgrade local products to the national level by helping to meet the standards (white labelling) that can be sold in modern retail, whilst utilising e-commerce-based trading to guide micro, small, medium (UMKM) companies into the distribution chain of modern retail companies.

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