Savills World Research
Indonesia

# Asian Cities Report
# Jakarta Retail

1H 2018

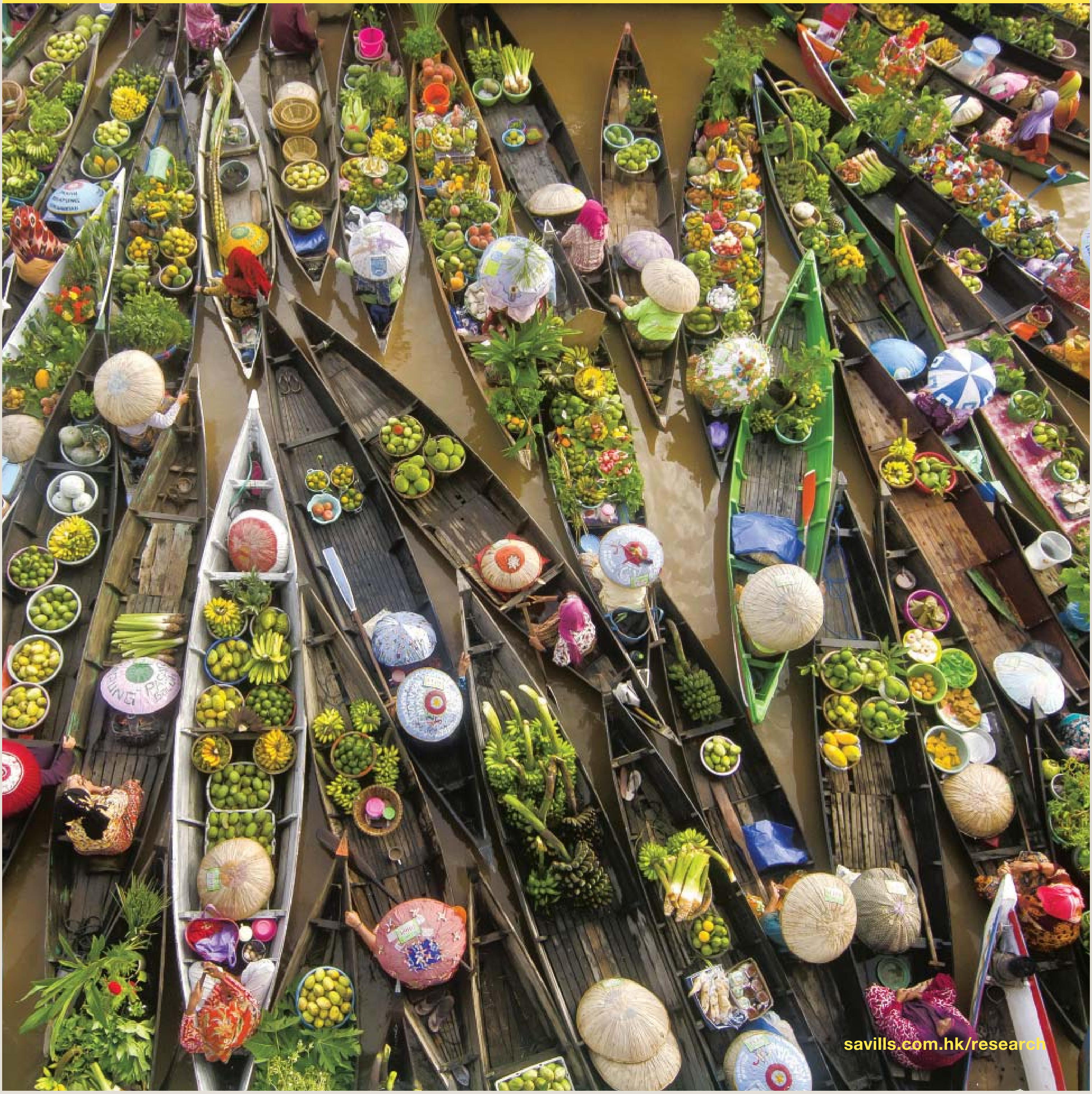


TABLE 1

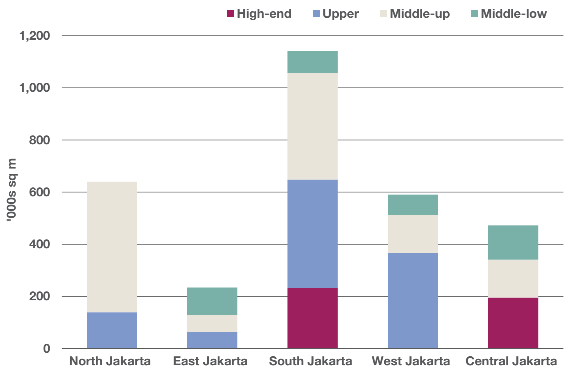
**Jakarta statistics**

| | |
|---|---|
| Population 2017 (BPS projection) | 10,374,235 |
| Population growth per annum (2010-2016) | 1.07% |
| No. of household size (2016) | 3.83 |
| Unemployment rate (Aug 2017) | 7.14% |
| GRDP growth (YoY) (2017) | 6.22% |
| Consumer confidence index (Feb 2018) | 126.7 |

Source: BI, BPS, Depkeu

GRAPH 1

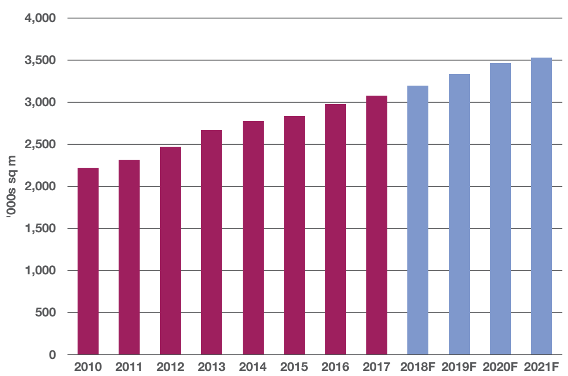
**Jakarta shopping mall distribution by grade and municipality, 1H/2017**




Source: Savills Research & Consultancy

GRAPH 2

**Shopping mall supply, 2010 – 2021F**




Source: Savills Research & Consultancy

## Economic overview

Jakarta is Indonesia's economic powerhouse, priding itself as being the nation's main commercial, political and business hub. Jakarta follows a similar trajectory to Indonesia's GDP growth rate and historically has maintained figures even higher than Indonesia. Its annual GRDP[1] growth rate for FY2017 stood at 6.22%, outperforming Indonesia's which stood at 5.07%. Infrastructure development and a conducive business and investment climate contributed to the city's economic growth. Meanwhile, household consumption remained subdued in 2017. Nevertheless, Jakarta's consumer confidence index in February 2018 improved to 126.7, compared with 124.0 in February 2017.

## Supply

Aside from being Indonesia's biggest business center, Jakarta also houses the most shopping centers in Indonesia. The development of shopping centers in Jakarta began in the 1970s. Since then, the number of shopping centers has continued to increase, however, growth has slowed in the past few years due to the complexities involved in securing new permits as well as land scarcity in prime areas.

New supply in 2017 amounted to 103,500 sq m – only about 73% of the new supply on offer in 2016. With this addition, total rental shopping mall space in Jakarta stood at almost 3.1 million sq m by December 2017.

In terms of grade, shopping centers in Jakarta can be classified into four grades: high-end, upper, middle-up and middle-low. Of the existing supply, currently 41% is middle-up, 32% is upper grade, 14% is high-end and another 13% is classified as middle-low mall.

Regarding location, South Jakarta offers the largest supply – accounting for about 37% of total supply. Meanwhile, North Jakarta, West Jakarta and Central Jakarta contribute around 21%, 19% and 15% respectively. East Jakarta, which has been developing lately, represents approximately 8% of the existing supply.

Based on Savills' observation, the retail landscape in Jakarta is evolving; from simple, single-use structures to complex, mixed-use buildings. These days, many shopping centers are adopting new concepts to match consumers' preferences – prioritizing experiential and entertainment aspects.

## Demand

Demand for retail space in Jakarta reached its peak between 2010 and 2013 where net take-up surpassed new supply. Since 2014, the pattern has reversed – demand has been lower than new supply – and it continued in 2017 due to the sluggish economy and a shifting consumer profile. In response to these changes, retailers and mall owners have tried to improve their spaces – unveiling new looks to their centers. A number of malls underwent major renovation and tenant improvement works in 2017. Even so, the vacancy rate climbed to 12.1% from 10.3% in 2016.

Based on grade, upper grade shopping centers were the only ones to show positive net take-up in 2017, while the other grades experienced negative net take-up. Consequently, high-end mall vacancy rose to 6.4% by end-2017 (vs 2.8% in 2016). Vacancy rates in middle-low and middle-up malls increased to 8.5% (7.3% in 2016) and 19.7% (16.1% in 2016) respectively due to new inventory growth. Meanwhile, upper grade malls enjoyed a declining vacancy level from 7.4% in 2016 to 6.3% in 2017.

During 2017, demand for retail space from the F&B sector remained high, as retailers expanded their footprint. Beauty retailers were also more active during the year.

## Rents

Responding to rising vacancies and a slow retail market, rents in Jakarta decreased slightly. Average rent in December 2017 was about IDR356,000 per sq m per month – a 3% reduction from last year's average.

Looking closely at each segment, rents in all grades, except high-end malls, declined. Rent per sq m per month in the middle-low segment was down the most to IDR217,000 whereas rents in middle-up malls slipped to IDR294,000.

Rents in upper grade centers slid a litte to IDR517,000, while high-end malls maintained a stable rents at IDR823,000.

## Latest trends

The survival of the retail market really depends on its consumers. Thus, retailers need to be highly sensitive to customer preferences, be able to identify changes and be quick to adapt to new conditions. Nowadays, the retail market is more challenging than ever as technology disrupts conventional retail chains and patterns. Furthermore, today's consumers are more sophisticated – they demand constant newness and speed as well as personalization. Physical retail stores face tremendous obstacles to keep up with their online counterparts.

The impact on a changing retail landscape is seen most markedly in department stores. Big department stores in some malls have either shut their doors, such as Metro in Pacific Place and Matahari in Taman Anggrek Mall, or exited Indonesia all together, as happened with Debenhams. The mismatch between department stores and customer demand – in essence homogeneity vs. experience and personalization – has led to a dismal future for department stores.

Responding to the unprecedented change in the retail landscape – even though e-commerce still represents a small fraction of Indonesia's total retail sales, about 1.6% in 2016 – retailers and mall operators in Jakarta have started to improve their spaces. Developers are adopting new concepts when developing shopping centers to create remarkable in-store experiences. The aim is to heighten the experiential aspects of retail that cannot be replaced online. At the same time, pure-play online retailers are now venturing into traditional brick-and-mortar retail.

One example is the e-commerce fashion label Berrybenka. Starting with pop-up stores in various locations, Berrybenka now has multiple permanent stores in shopping malls. Having a physical store benefits retailers as it increases brand awareness. Furthermore, the store also acts as a warehouse and fulfillment center where buyers can collect and/or return their online purchases, providing improved logistics. The store is also believed to fill a trust gap for customers buying online, and can boost sales both online and offline. The trend of online retailers opening pop-up stores in shopping centers has become commonplace these days; brands and labels are realising that an omnichannel is better than a single channel. Additionally, new types of tenants i.e. coworking spaces are starting to emerge in shopping centers. Cre8 in PIK Avenue, Rework in fX Sudirman and Backspace in Lippo Mall Puri are some examples.

## Outlook

Around 450,000 sq m of new supply will enter the retail market between 2018 and 2021, of which about 55% will be in upper grade retail projects while the rest will represent the middle-up segment. By location, South and West Jakarta are the most preferred locations, comprising 35% and 31% respectively of future projects. Most of the upcoming supply will be part of mixed-use developments, which are smaller in size relative to existing malls.

Meanwhile, demand over the short-term is predicted to be slow on the back of a soft economic recovery. As such, filling-up the large vacant spaces left by department stores will be challenging.

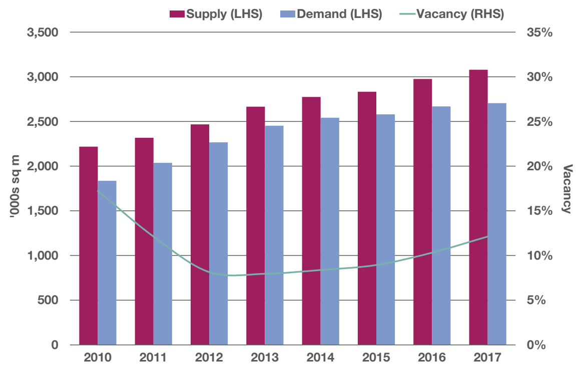
We expect more landlords to increase the entertainment and experience offerings in their malls. Furthermore, landlords' efforts to bring global brands to their shopping centers are likely to continue while F&B retailers will remain the most active player in retail due to the strong demand in this sector from rising affluent customers.

We have seen that limited household consumption – as reflected in modest retail growth – has restrained rental increases across all market segments over the past three years. Looking forward, from a moderate outlook, rental growth between 2018 and 2021 will be quite limited – at a CAGR of 2-3%. But based on optimistic scenarios, we can expect the market to enjoy higher rents, mainly due to limited supply of high-end malls. In this case, overall growth is projected at around 4-6% per annum over the next two years before stabilizing in 2020.

1 GRDP : Gross Regional Domestic Product.

GRAPH 3

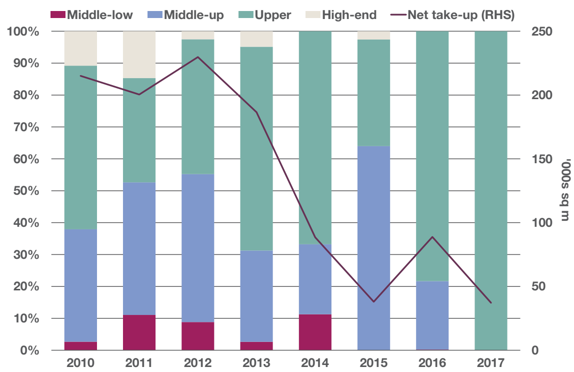
### Shopping mall supply, demand and vacancy, 2010 – 2017




Source: Savills Research & Consultancy

GRAPH 4

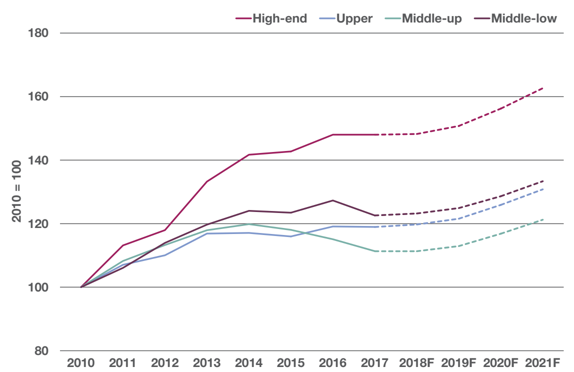
### Net take-up by grade, 2017




Source: Savills Research & Consultancy

GRAPH 5

### Retail price index by grade, 2010–2021F




Source: Savills Research & Consultancy

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