Indonesia - June 2020

SPOTLIGHT

Savills Research

Jakarta Office Market

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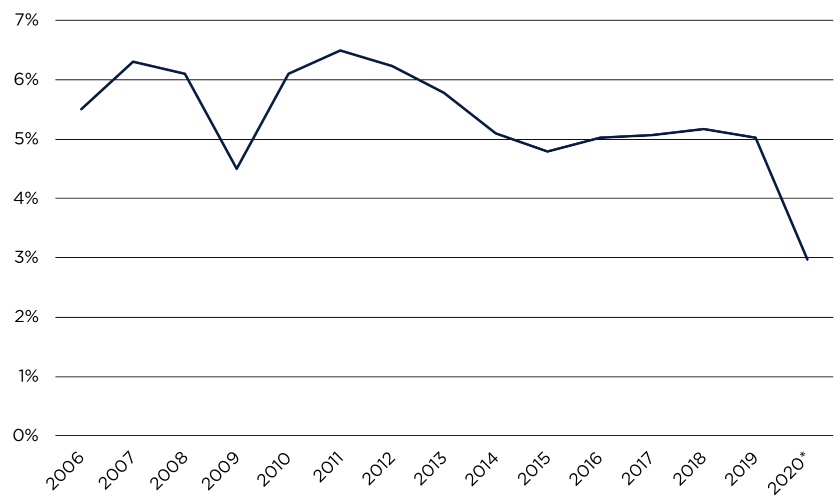
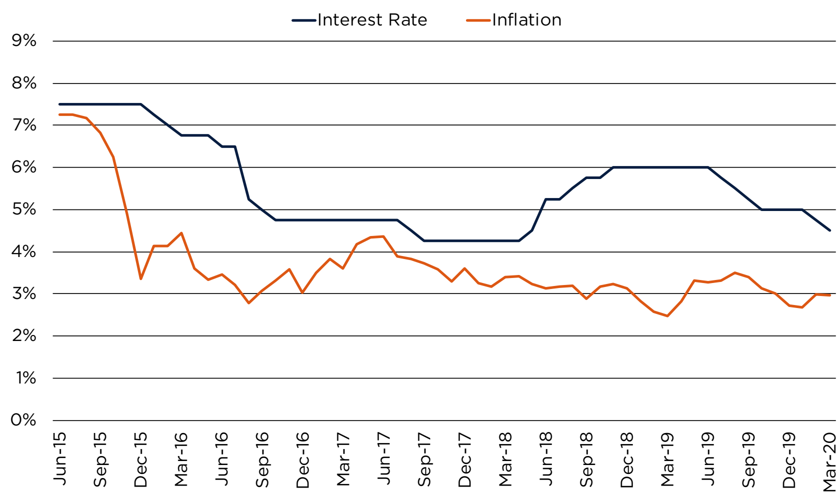
Post-pandemic fundamentals remain sound

GRAPH 1: Indonesia Annual GDP Growth, 2006 to 2020



Source BPS
* Q1/2020

GRAPH 2: Interest Rate And Inflation, June 2015 to March 2020



Source BPS, BI

THE ECONOMY

Entering 2020, the global economy was shaken by the COVID-19 pandemic which started in Wuhan, China. At the time of writing, it has spread to over 210 countries.

Indonesia announced its first confirmed cases in early March and as the government imposed strict social distancing rules, businesses began to feel the impact of the pandemic. Travel, hospitality and aviation were all badly hit in the early stages, followed by other sectors, including property.

Despite the outbreak, Indonesia's economy grew by 2.97% during Q1/2020 on the back of government spending and external demand growth. The first quarter figures were relatively strong compared to many other countries in the region which saw GDP growth rates falling into negative territory over the same period.

However, growth in total direct investment slowed to 8.0% (IDR2,010 trillion) in Q1 compared with 12.0% in the previous quarter. With growing concerns surrounding the pandemic, it is anticipated that the economy will continue to give up ground over the remainder of 2020 as investors hold back.

Anticipating the impact of the pandemic on the economy the Minister of Finance Sri Mulyani Indrawati has flagged a risk of recession and projected further GDP contraction. The government in their latest official statement revised slightly the annual GDP growth target to around 2% for 2020, while the IMF estimated around 0% growth before quickly rebounding to 8% in 2021.

WHAT IS THE IMPACT ON PROPERTY?

The property sector, which earlier this year was projected to continue its upward recovery, is facing new challenges with the outbreak of COVID-19. As analysts predict

TABLE 1: Key Figures - Indonesian Economy, 2012 to 2020 YTD

	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP Growth (%)	6.23	5.78	5.09	4.79	5.02	5.07	5.17	5.02	2.97*
Interest Rate (%)	5.75	7.50	7.75	7.50	4.75	4.25	6.00	5.00	4.50
Inflation Rate (%)	4.28	6.97	6.45	6.38	3.02	3.61	3.13	2.72	2.96
Exchange Rate (USD/IDR)	9,670	12,189	12,440	13,795	13,436	13,548	14,481	13,091	16,367
Unemployment Rate (%)	6.07	6.17	5.94	6.18	5.61	5.50	5.34	5.28	4.99

Source BPS. BI, MoF
* Q1/2020

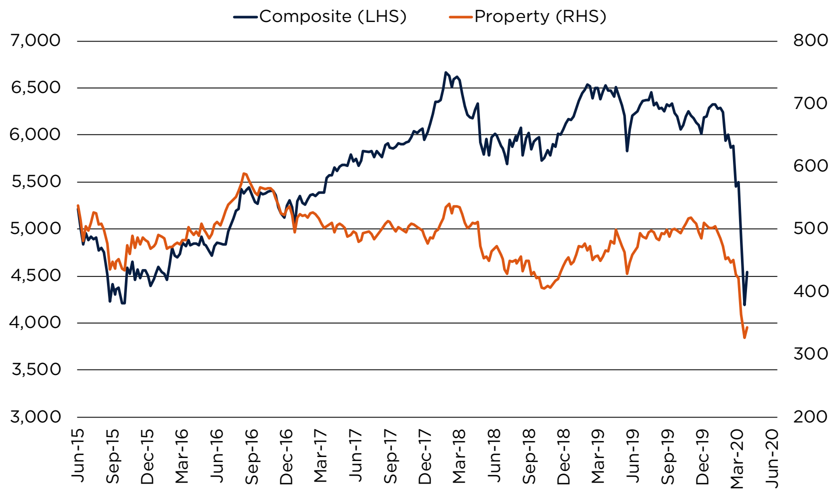
that GDP growth this year to drop to a new low, overall market activity is expected to slow, particularly during the second and third quarters of the year.

The heavy depreciation of the rupiah following the confirmed case announcement in March provided a signal that we will experience a more challenging business environment ahead. Meanwhile, the drop in the stock market also indicated that investor confidence has been severely affected.

With major cities in Indonesia now adopting strict social distancing rules, developers' operations are being directly impacted with public marketing events and new launches prohibited. In addition, buyer interest may also be shaken if the pandemic lingers with no effective solution on the horizon.

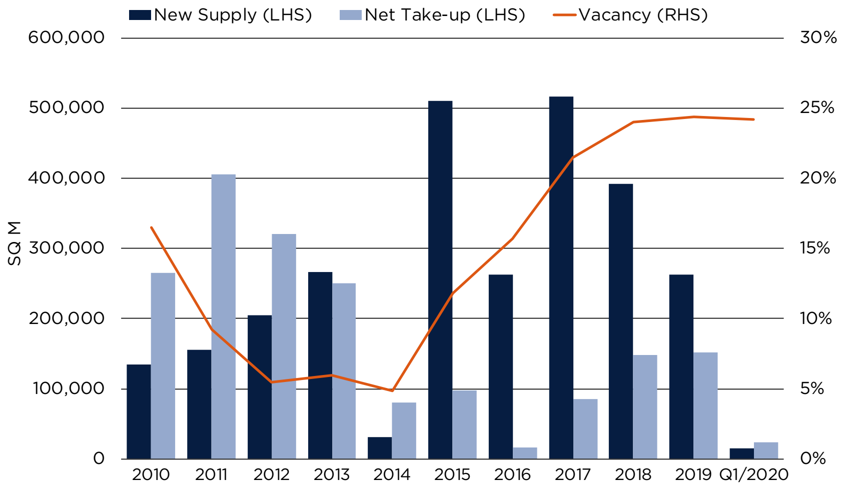
Leasing acitivity in the CBD was subdued with only one project completion between January and March while quarterly net take-up slipped to around 24,000 sq m.

GRAPH 3: IDX Composite And Property Index, June 2015 to June 2020



Source BEI

GRAPH 4: Supply, Demand And Vacancy - CBD Overall, 2010 to Q1/2020



Source Savills Research & Consultancy

Despite the above, we expect the property sector to have room for growth this year particularly in the landed house and logistics sectors as demand in these markets has held up quite well over recent months.

Furthermore, the current economic hardship may trigger non-core asset sales from developers or project owners, which will be seen as a rare opportunity for investors to acquire assets at distressed levels.

Nevertheless, as business will continue to be affected by the pandemic over the next several quarters, developers and landlords are encouraged to take preventive measures, while adapting to the new normal in order to stimulate buyer interest in their projects and retain existing tenants/occupiers in their buildings.

CBD OFFICE

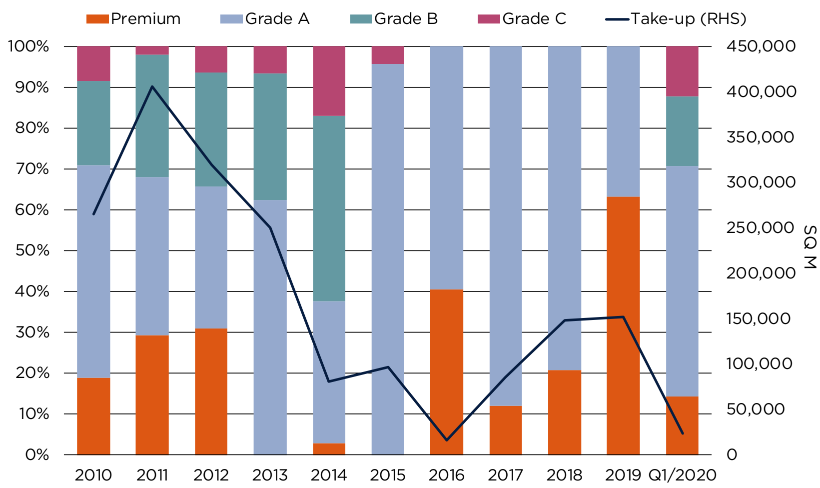
The CBD market saw limited supply with only one building finished in the first quarter of 2020. Lower additional supply in this period was also aligned with seasonally slow take-up after the year-end holiday break.

A new building with a total semi-gross area of around 14,700 sq m was finally completed recently. Lippo Thamrin Office Tower, located strategically in Thamrin district, is a new office development categorized as a Grade B building.

With the new supply from Lippo Thamrin Office Tower, the total existing stock in the Jakarta CBD currently stands at around 6.6 million sq m. Of that figure, Grade A remained the largest proportion of existing stock (39%), followed by Grade B (28%), Premium Grade (23%), and Grade C buildings (10%).

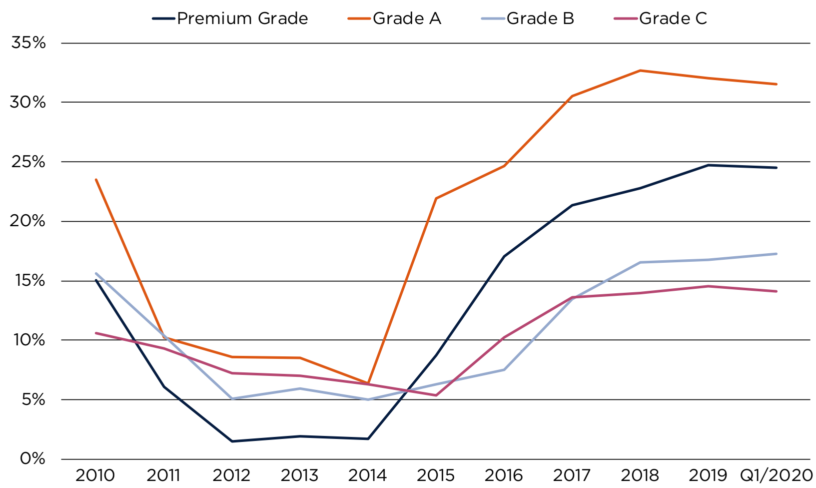
By location, the office stock was concentrated in the Sudirman area with around 47% of total inventory. Meanwhile, Kuningan accounted for about 30%, while Gatot Subroto and Thamrin represented about 14% and 9%, respectively.

GRAPH 5: Net Take-up By Grade, 2010 to Q1/2020



Source Savills Research & Consultancy

GRAPH 6: Vacancy By Grade, 2010 to Q1/2020



Source Savills Research & Consultancy

Following a strong second semester last year, the office market in Jakarta CBD started off the year with a rather soft performance.

While enquiries continue to derive from tenants looking for better quality space, net take-up in the first three months fell from a quarter ago.

Overall, net take-up in the CBD slipped by 16% QoQ to around 24,000 sq m of which more than half of the net demand this quarter was absorbed by Grade A buildings.

Grade A as well as Premium Grade buildings continued to absorb a big chunk of demand as seen in the past five years. A flight-to-quality has generated expansion and relocation demand on the back of abundant new completions in these segments.

Aside from rising available space in the Grade A and Premium segments, attractive leasing packages offered by landlords has also lured tenants from outside the CBD or from other lower quality buildings to move in to these new higher quality developments.

Despite the take-up, overall vacancy remained at around 29% at the end of Q1, with both Grade A and Premium buildings seeing a slight easing in their vacancies to around 31% and 25%, respectively. Meanwhile, vacancies in Grade B and C buildings were relatively stable at around 17% and 14%, respectively.

In general, coworking space operators continued to dominate office absorption between January and March. In addition, securities companies, professional firms and banks also contributed demand during this period.

Over the past few years, the growth in e-commerce and start-up companies has generated significant queries in the CBD.

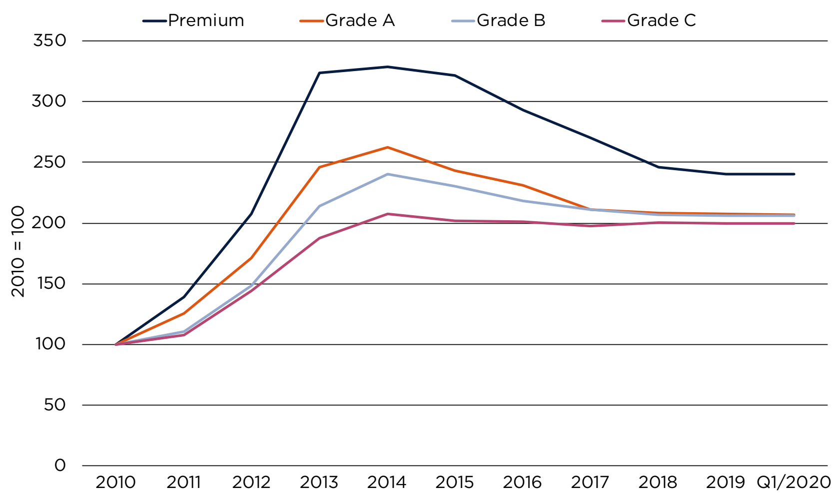
A number of successful unicorns such as Tokopedia and Gojek have established their presence as new major tenants with

TABLE 2: Market Indicators – CBD

	Q1/2020	Q3/2019	Q1/2019	CHANGE (%)	
				HOH	YOY
Existing Stock (Sq m)	**6,593,318**	**6,590,015**	**6,343,875**	**0.1%**	**3.9%**
Premium Grade	1,531,099	1,531,099	1,353,099	0.0%	13.2%
Grade A	2,560,056	2,560,056	2,491,916	0.0%	2.7%
Grade B	1,861,807	1,858,504	1,858,504	0.2%	0.2%
Grade C	640,356	640,356	640,356	0.0%	0.0%
Average Rent (IDR per sq m per mth)	**201,688**	**203,410**	**203,015**	**-0.8%**	**-0.7%**
Premium Grade	332,952	333,294	341,681	-0.1%	-2.6%
Grade A	226,482	229,876	230,555	-1.5%	-1.8%
Grade B	184,306	186,646	186,646	-1.3%	-1.3%
Grade C	142,185	142,876	142,876	-0.5%	-0.5%

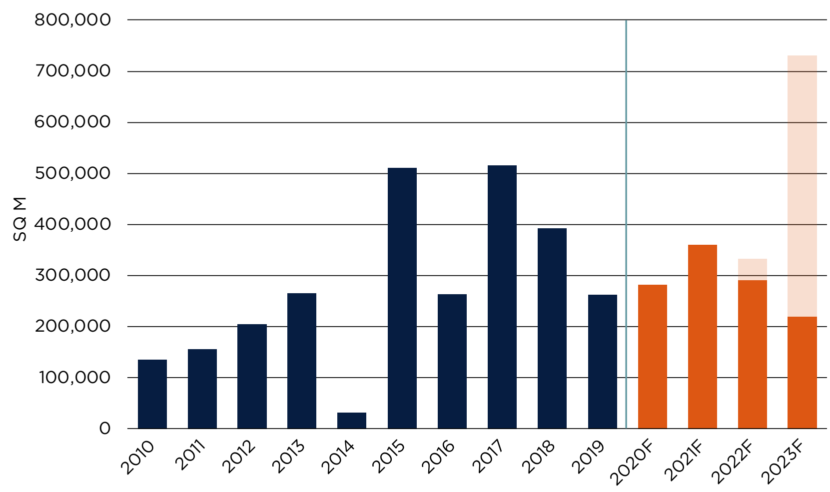
Source Savills Research & Consultancy

GRAPH 7: Rental Index By Grade, 2010 to Q1/2020



Source Savills Research & Consultancy

GRAPH 8: Annual Supply, 2010 to 2023F



Source Savills Research & Consultancy

significant space in prominent buildings.

Amid signs of easing vacancies, most landlords were quite conservative in their rental offerings. As a result, office rents in Jakarta CBD remained unchanged during the first quarter.

At the end of March 2019, office rents in Premium Grade buildings averaged around IDR333,000 per sq m per month, while the average rent in Grade A buildings stood at about IDR226,500 per sq m per month. In a similar vein, rents in Grade B buildings were offered at an average of IDR184,000 per sq m per month and Grade C buildings at IDR142,000 per sq m per month.

WHAT IS THE OUTLOOK?

The COVID-19 pandemic hit business activity globally with obvious implications for commercial real estate demand. With strict social distancing in effect from April onwards requiring companies to implement Work-From-Home (WFH) for their employees, office enquiries in the coming months are likely to fall heavily.

On the other hand, around 1.2 million sq m of new supply is scheduled to enter the market between now and 2023. Most is scheduled to complete over the next twelve months while we also anticipate that some of the projects may be delayed due to the impact of the anticipated market slowdown.

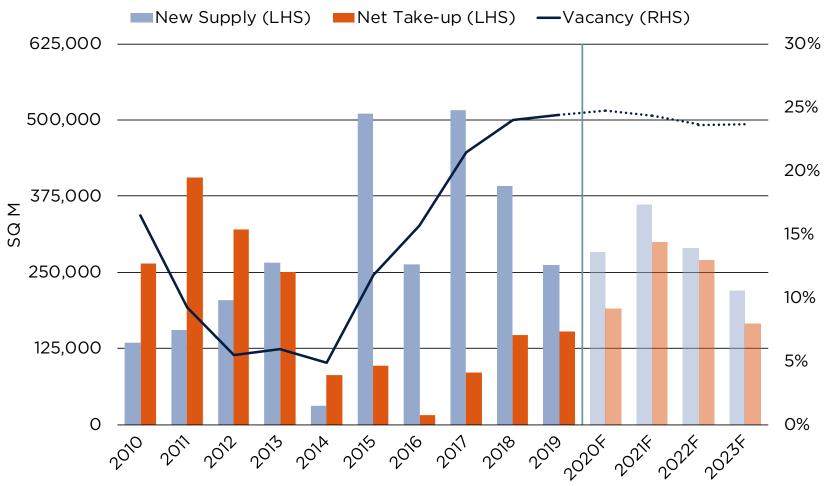
By location, most of the projects are in Sudirman area (40%) and Kuningan area (36%). Thamrin and Gatot Subroto areas represent about 14% and 10% of future supply, respectively. Meanwhile, Grade A projects continue to dominate the pipeline with around 56%, followed by Premium Grade developments, which constitute around 32% of future supply.

TABLE 3: Future Supply – CBD

	2020	2021	2022	2023
Future Supply (Sq m)	**268,000**	**360,358**	**289,903**	**219,398**
Premium Grade	188,000	116,358	-	70,776
Grade A	80,000	220,000	239,000	125,522
Grade B	-	24,000	50,903	23,100
Grade C	-	-	-	-
Sudirman	-	180,000	190,000	78,834
Thamrin	94,000	-	49,000	-
Rasuna Said	174,000	156,358	-	101,376
Gatot Subroto	-	24,000	50,903	39,189

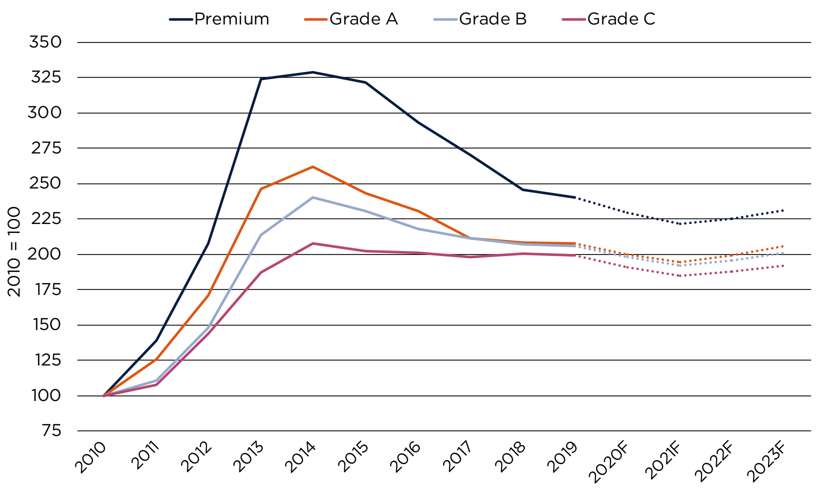
Source Savills Research & Consultancy

GRAPH 9: Supply, Demand And Vacancy Forecast, 2010 to 2023F



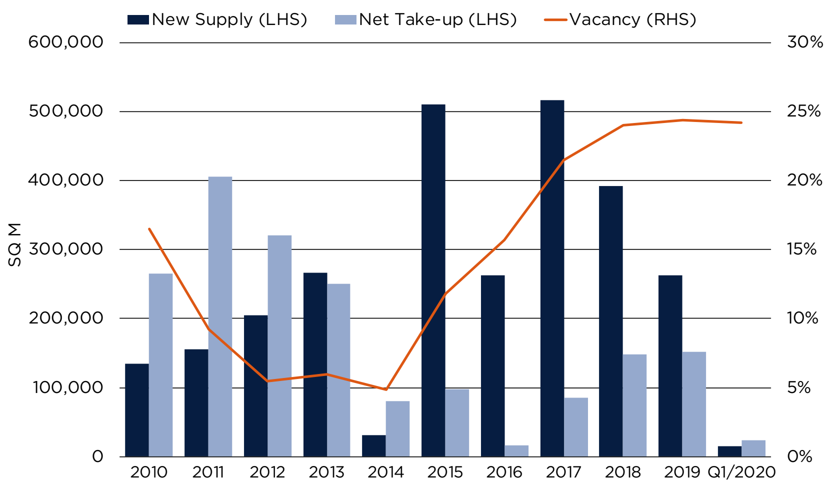
Source Savills Research & Consultancy

GRAPH 10: Rental Forecast (Moderate Scenario), 2010 to 2023F



Source Savills Research & Consultancy

GRAPH 11: Supply, Demand And Vacancy, Non-CBD Overall, 2010 to Q1/2020



Source Savills Research & Consultancy

Considering the impact of the pandemic on business in general which is predicted to linger until year-end or in a worse case scenario, until next year – overall CBD vacancy could well increase further before gradually declining from 2022 onwards.

The government has initiated various measures to help businesses to survive the crisis but incentives are primarily targeted at SMEs in the lower segment. Companies in the travel, hospitality and F&B sectors which have been badly hit have had to reduce staff numbers. While this could reduce demand for office space, we also note that sectors like e-commerce, consumer goods, logistics and tech companies continue to perform well during the pandemic. These type of businesses are expected to generate fresh enquiries in the coming quarters.

Despite the widespread impact of the pandemic on business activity, companies in the e-commerce and tech sectors have continued to expand and hire more employees.

Based on this, we are optimistic that demand for office space in the Jakarta CBD will remain positive throughout the year albeit at a much slower pace than 2019.

However, as vacancy is seen to remain high over the next twelve months, we expect rents to remain under pressure in the short to medium term. Landlords will continue to provide attractive rental packages and leasing terms especially for those looking for more space, in order for landlords to quickly fill their buildings or maintain high occupancy levels during the current situation. On this basis and based on a moderate case scenario, we estimate a slight contraction in average rents in the CBD by around 3% to 4% per annum over the 2020 to 2021 period.

NON-CBD OFFICE

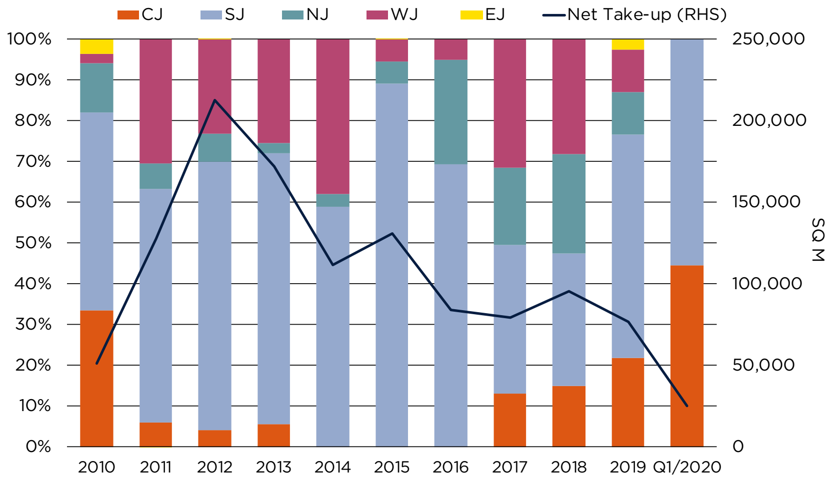
Two new buildings were completed in the Non-CBD area between January and March, adding a total of approximately 80,700 sq m of new office space to the market.

The newly-completed projects in Q1 were Arkadia Tower G and Jakarta Box Tower. Arkadia Tower G is located in TB Simatupang area, South Jakarta while Jakarta Box Tower is situated in Kebon Sirih, Central Jakarta. Both new buildings are considered to be Grade B quality developments.

With the new completions, existing stock in the Non-CBD market rose to around 3 million sq m. Overall, the Non-CBD market consists primarily of Grade B buildings, which constitute about 61% of total existing stock. Meanwhile, Grade C and A buildings accounted for 28% and 11% of total Non-CBD stock, respectively.

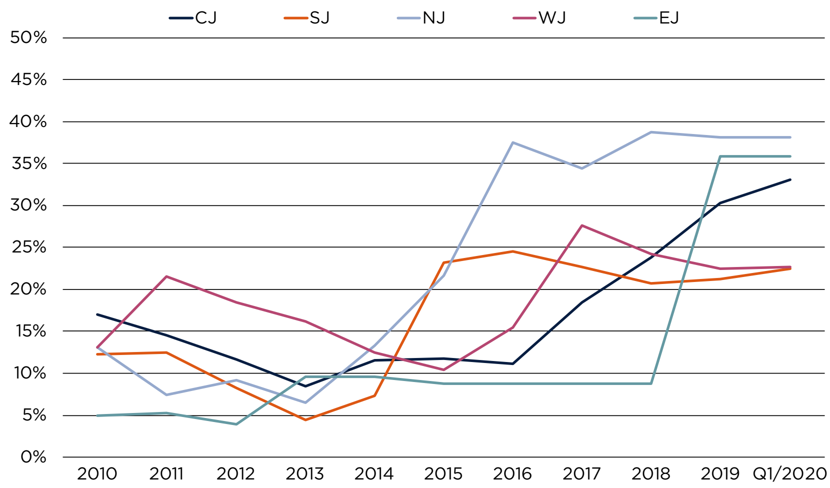
By location, South Jakarta still leads the pack with 55% of total stock. This is followed by Central Jakarta at 16%, West Jakarta at

GRAPH 12: Net Take-up By Grade, Non-CBD, 2010 to Q1/2020



Source Savills Research & Consultancy

GRAPH 13: Vacancy By Grade, Non-CBD, 2010 to Q1/2020



Source Savills Research & Consultancy

16%, North Jakarta at 12% and finally East Jakarta at 1%.

Demand in the Non-CBD area continued to be supported by expansion of e-commerce and tech companies. In addition, co-working space operators helped to absorb available space in new buildings.

The completion of the two new buildings helped to generate net take-up in the first quarter to around 25,000 sq m, an increase of around 37% QoQ. However, with more new space available from the newly-completed buildings, Non-CBD vacancy rose from 25% to 26% by the end of March, with around 800,000 sq m available in the Non-CBD market.

South Jakarta and Central Jakarta remain favourite locations outside Jakarta's CBD with a majority of new occupations taking place in these areas.

Between January and March 2020, actual absorption in South Jakarta and Central Jakarta dominated net take-up in Non-CBD area with both regions accounting for about 55% and 45% of overall net take-up, respectively.

Proximity to the CBD and good linkages are seen as major advantages for South and Central Jakarta. Accordingly, many companies choose to reside in these regions as more affordable alternative locations to the CBD.

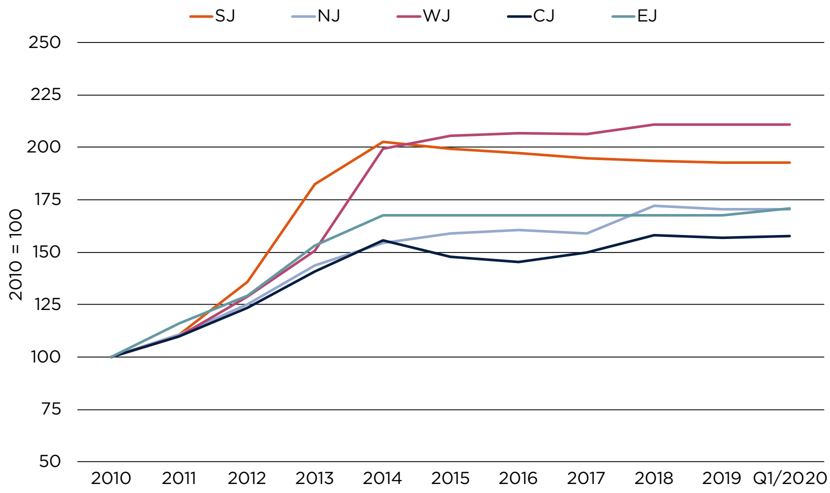
Meanwhile, with soft leasing activity in other municipalities, take-up and vacancies in these regions were relatively unchanged. Vacancy in East Jakarta remained high at around 36%, while vacancy in West Jakarta stayed at around 23%. In North Jakarta where vacancy is the highest among other Non-CBD municipalities, it was around 38% at the end of March.

TABLE 4: Market Indicators – Non-CBD

	Q1/2020	Q3/2019	Q1/2019	CHANGE (%)	
				HOH	YOY
Existing Stock (Sq m)	**3,046,254**	**2,932,428**	**2,820,961**	**3.9%**	**8.0%**
Central Jakarta	491,222	421,995	394,558	16.4%	24.5%
South Jakarta	1,681,572	1,636,973	1,573,175	2.7%	6.9%
North Jakarta	373,340	373,340	363,340	0.0%	2.8%
West Jakarta	472,688	472,688	472,688	0.0%	0.0%
East Jakarta	27,432	27,432	17,200	0.0%	59.5%
Average Rent (IDR per sq m per mth)	**126,834**	**127,625**	**127,805**	**-0.6%**	**-0.8%**
Central Jakarta	101,783	102,190	102,000	-0.4%	-0.2%
South Jakarta	144,747	145,441	145,598	-0.5%	-0.6%
North Jakarta	109,895	111,210	111,015	-1.2%	-1.0%
West Jakarta	118,600	118,600	118,600	0.0%	0.0%
East Jakarta	89,188	87,500	87,500	1.9%	1.9%

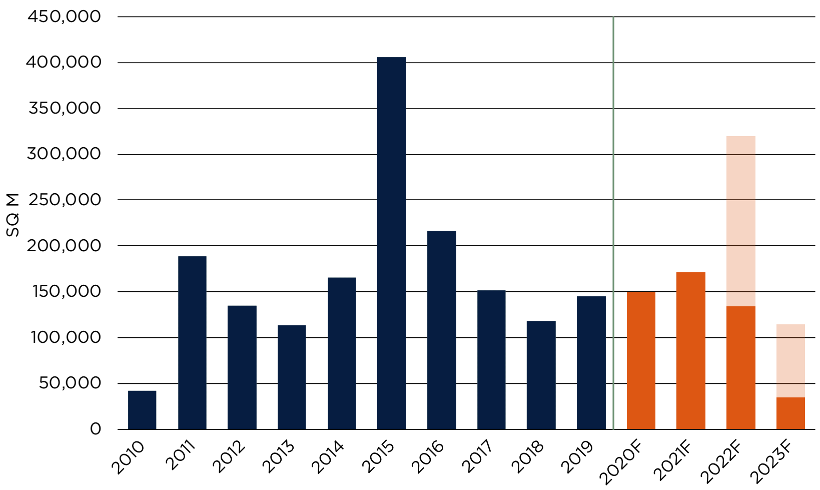
Source Savills Research & Consultancy

GRAPH 14: Rental Index By Grade, Non-CBD, 2010 to Q1/2020



Source Savills Research & Consultancy

GRAPH 15: Annual Supply, Non-CBD, 2010 to 2023F



Source Savills Research & Consultancy

Despite positive demand growth in this quarter, landlords remain cautious about leasing activity in the coming months due to the potential impact of the pandemic.

As competition remains tight, rents in the Non-CBD area were also stagnant.

With around 800,000 sq m of vacant space available in the market, existing and prospective tenants have a lot of options and a relatively strong bargaining position. This condition continued to put downward pressure on rents which averaged around IDR127,000 per sq m per month at the end of the first quarter.

South Jakarta continued to command the highest rents among its peers at IDR144,800 per sq m per month. Average rents in West, Central and East Jakarta stood at around IDR118,600, IDR101,400 and IDR87,500 per sq m per month, respectively. Meanwhile rents in North Jakarta currently stand at around IDR109,700 per sq m per month.

WHAT IS THE OUTLOOK?

The office market in Non-CBD areas is scheduled to receive almost 500,000 sq m of additional supply between now and 2023.

Most future supply is located in Central and South Jakarta – both account for about 35% to 36% of the total figure. North Jakarta and West Jakarta each represent about 18% and 10% of future supply, respectively. With rising new developments in the area, Central Jakarta recently began to overtake South Jakarta as a leading contributor to supply in the Non-CBD area.

By quality, a major portion of future supply will be from Grade B projects, with around 74% of the total figure. Then about 25% of future stock is categorized Grade A while the remaining is considered Grade C.

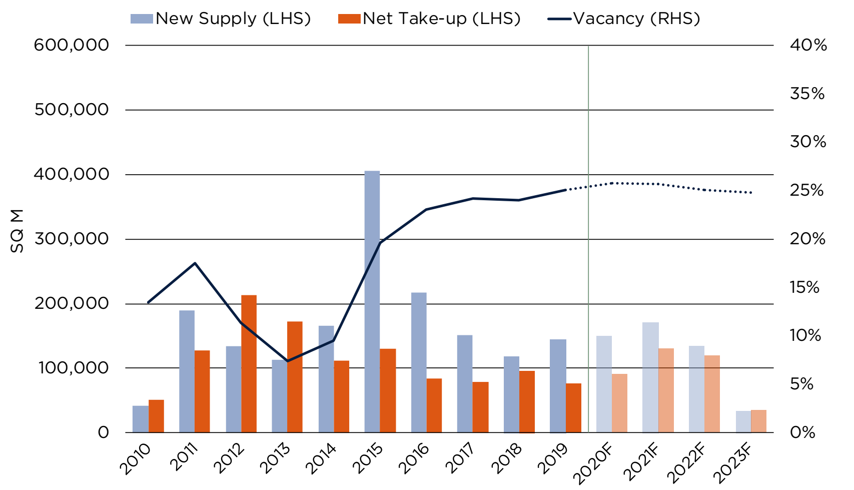
SYNERGY BETWEEN LANDLORDS & COWORKING PROVIDERS

Over the past few years, coworking space has been growing rapidly on the back of the shifting nature of work. Young generations prefer coworking space to conventional offices as it can accommodate their lifestyle better – flexibility, creativity, modern design and layouts with various facilities and amenities are all provided by coworking operators. Nonetheless, this business model remains unproven in terms of its sustainability; generally, coworking's balance sheet remains red for now. The scepticism has deepened with the failure of WeWork to go public in 2019.

Coworking has been able to survive to date as it has been supported by ample funds from investors. Moreover, coworking providers have tried to reduce their fix costs through joint arrangements with landlords. Landlords provide the space while coworking providers are responsible for operations. Profits will then be split according to their agreement.

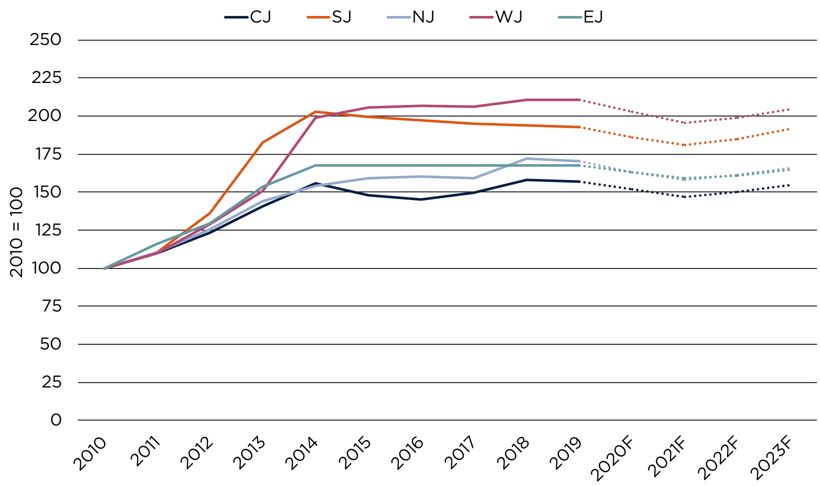
Some examples of coworking providers with joint arrangements with landlords are Wellspaces.co, CoHive, Kolega, WeWork, JustCo and UnionSpace. Usually, brands used for business will be the providers' brands. However, they can be landlords' brands too such as Astralabs, a coworking space by Astra Property but managed by Wellspaces. It all depends on consent from both parties.

GRAPH 16: Supply, Demand And Vacancy Forecast, Non-CBD, 2010 to 2023F



Source Savills Research & Consultancy

GRAPH 17: Rental Forecast (Moderate Scenario), Non-CBD, 2010 to 2023F



Source Savills Research & Consultancy

We anticipate tech companies including fintech as well as e-commerce enterprises and co-working space operators to continue to generate a big chunk of enquiries in the Non-CBD area. Furthermore, new start-ups could see the Non-CBD area as a launch pad to start their business due to lower operating costs compared to the CBD area. Some districts in the Non-CBD area now have better linkages to the CBD with the opening of the MRT, making them more attractive locations for prospective occupiers.

About one-third of future supply is scheduled to enter the market this year.

If this materializes, Non-CBD vacancy is likely to increase slightly based on our moderate scenario on the back of the negative impact of the pandemic – vacancy is predicted to climb over to around 27% by year-end.

Our base case scenario shows that rents are projected to remain under downward pressure, which could lead to stagnancy over the next twelve months.

Later on in 2021/2022, as the development pipeline subsides, Non-CBD vacancy is projected to ease. We expect rents to rebound in late 2021 and gradually accelerate to around 5% to 6% growth per annum from 2022 onwards.

TABLE 5: Future Supply, Non-CBD

	2020	2021	2022	2023
Future Supply (Sq m)	**69,000**	**171,010**	**113,468**	**34,302**
Central Jakarta	-	-	91,783	-
South Jakarta	-	143,810	18,113	21,702
North Jakarta	48,000	27,200	6,007	3,600
West Jakarta	21,000	-	13,500	9,000
East Jakarta	-	-	4,066	-
Grade A	21,000	110,000	19,500	9,000
Grade B	48,000	61,010	111,568	25,302
Grade C	-	-	2,400	-

Source Savills Research & Consultancy

GLOSSARY

- The Jakarta CBD is defined as the prime commercial district bounded by:
  - Jl Sudirman-Thamrin
  - Jl Gatot Subroto
  - Jl HR Rasuna Said (Kuningan)

- The Non-CBD covers the commercial areas outside of the Jakarta CBD, which is defined based on municipality i.e.:
  - Central Jakarta
  - South Jakarta
  - East Jakarta
  - West Jakarta
  - North Jakarta

- Demand as defined by net absorption (net take-up) refers to the net increase in occupied space within a particular period.

- Premium grade buildings refer to commercial office developments located in prime CBD areas with international standard features and ranked highest in terms of building size and quality, facilities, maintenance etc.

- Grade A buildings refer to commercial office developments located in strategic areas with excellent quality features and ranked second highest in terms of building size and quality, facilities, maintenance etc.

- Grade B buildings refer to commercial office developments located in good areas with good quality features and ranked third highest in terms of building size and quality, facilities, maintenance etc.

- Grade C buildings refer to commercial office developments located in other areas with standard quality features and ranked lowest in terms of building size and quality, facilities, maintenance etc.

- Vacancy rate refers to the ratio of vacant available space to the total stock in the market.

- Gross rent refers to the total rental payable by tenants. This is equivalent to the sum of base rent plus service charges.

- Base rent is the standard minimum rental payable for an office space without taking into account any add-ons such as service charge and after-hours utility costs that make up the total occupancy costs.

- \`Service charge' is the collective name for the cost of air-conditioning, electricity and other services in public area as well as management charges passed on to occupiers.

Forecasting Methodology

- Optimistic Scenario - Based on the assumption that general economic conditions will improve significantly (i.e. better GDP growth and positive macro environment) supported by strong investor confidence (both domestic and overseas) in view of a more conducive investment climate, thus generating corporate expansion and business activity which would be reflected in significant tenant expansion as well as robust new company set-ups.

- Moderate Scenario - Based on the assumption that general economic conditions will grow moderately (i.e. stable GDP growth and neutral macro environment) which provides a foundation for positive corporate expansion and a calm business environment.

- Pessimistic Scenario - Based on the assumption that general economic conditions will weaken (i.e. lower GDP growth and negative macro environment) with a lack of support from both domestic and overseas demand.

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For more information about this report, please contact us

Savills Indonesia
Jeffrey Hong
President Director
+62 21 293 293 80
jeffrey.hong@savills.co.id

Savills Research
Anton Sitorus
Director, Research
Consultancy, Indonesia
+62 21 293 293 80
anton.sitorus@savills.co.id

Simon Smith
Senior Director
Asia Pacific
+852 2842 4573
ssmith@savills.com.hk