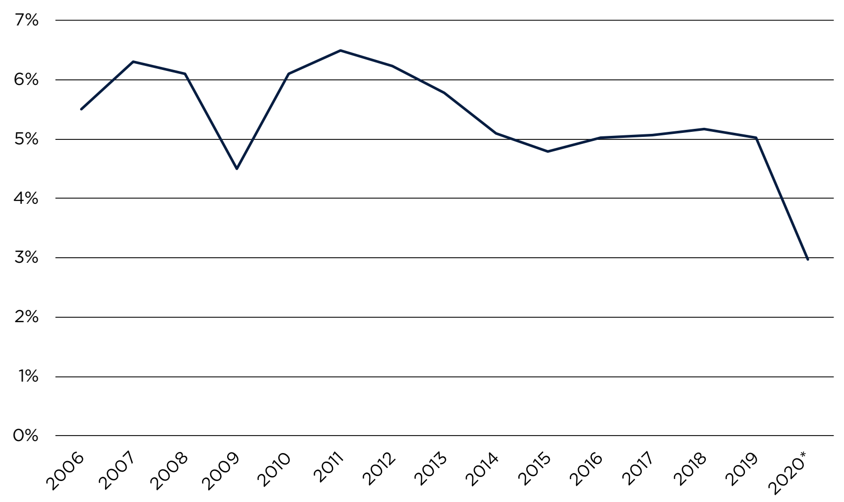
SPOTLIGHT
*Savills Research*

Indonesia - June 2020

# Jakarta Retail Market

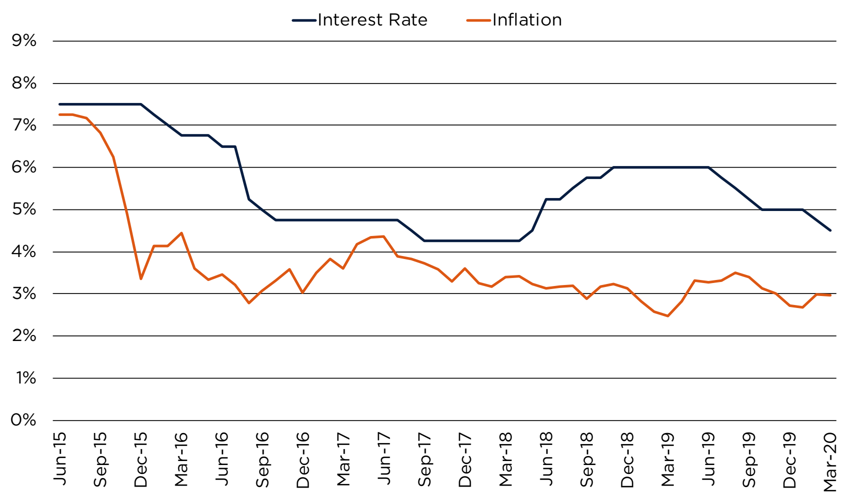
# Post-pandemic fundamentals are sound

**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 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

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

| | 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

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.

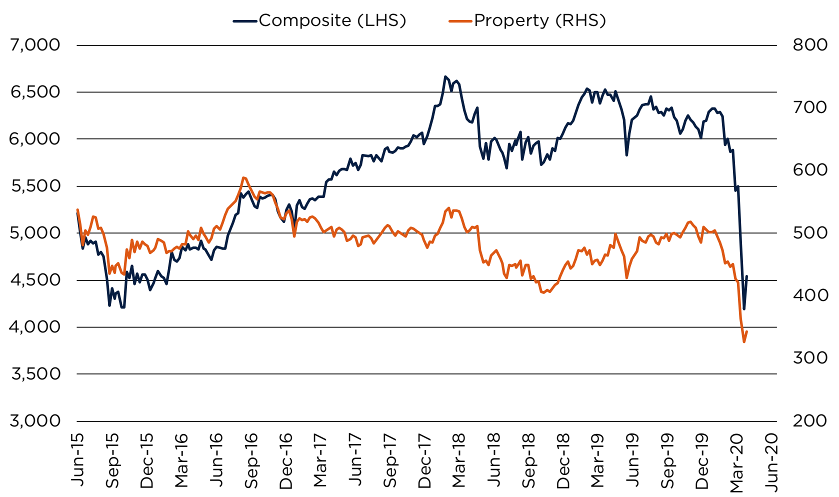
Despite the above, we expect the property sector to have room for growth this year particularly in the landed house and logistics sectors as demand in these markets has held up quite well over recent months.

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.

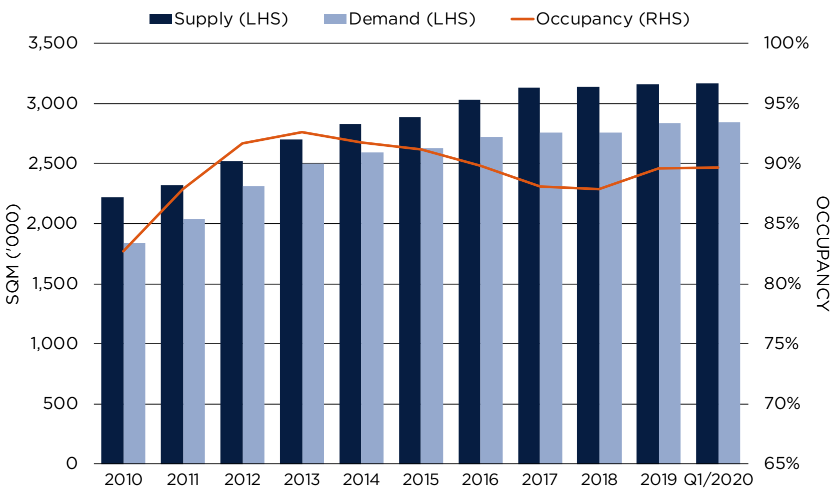
**Indonesia's GDP grew by 2.97% in Q1/2020, the weakest pace since 2001. However, growth was relatively better compared with many other countries in the region hit by the pandemic. Concerns remain that the virus will put a brake on the expansion plans of both domestic and overseas investors.**

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




**Source** BEI

**GRAPH 4: Supply, Demand And Occupancy, 2010 to Q1/2020**




**Source** Savills Research & Consultancy

## JAKARTA RETAIL

The retail market in Jakarta got off to a slow start in 2020 after a strong rebound last year. The situation deteriorated further with COVID-19 which pushed the government to impose strict social distancing rules in Jakarta.

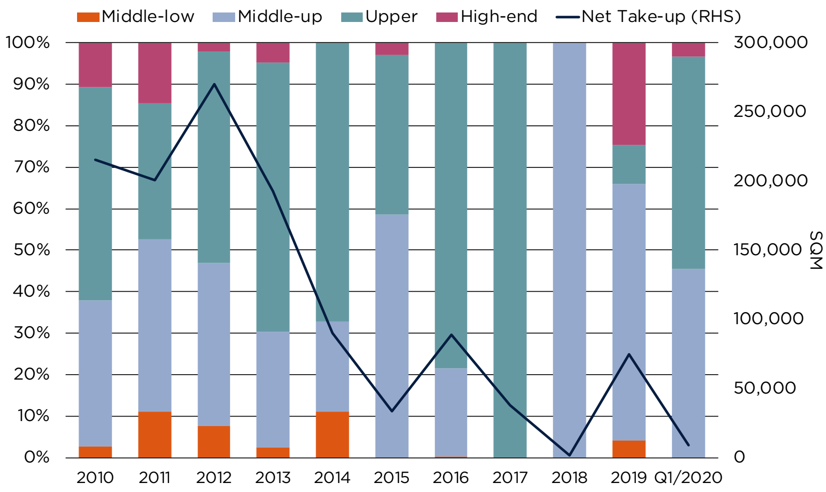
Only one project was finally completed in the first quarter of 2020 – Elysee in SCBD complex, a latest addition to lifestyle centers which rely heavily on F&B tenants. The new project (approx. 7,500 sq m NLA) is targeting employees and professionals from office buildings in the Sudirman area. With additional space from Elysee, retail stock in Jakarta now totals around 3.1 million sq m.

The largest proportion of existing stock comes from middle-up shopping centers, around 41% of the total. The second largest comes from the upper grade segment with around 33%. Meanwhile high-end and middle-low retail centers account for about 14% and 12%, respectively.

By location, about 38% of existing stock is in South Jakarta followed by North Jakarta at about 20%. West Jakarta and Central Jakarta contributed about 19% and 15% of total stock, respectively. Meanwhile, East Jakarta, with the largest population in the capital city, has the least retail inventory.

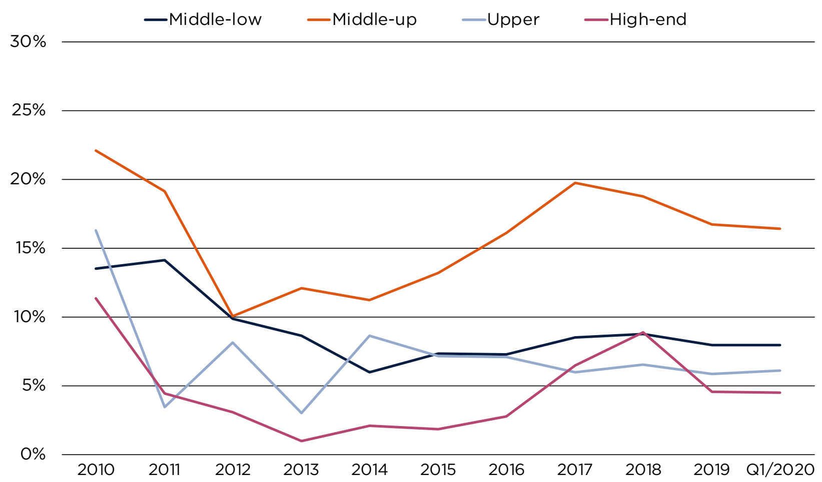
The soft market which have been ongoing in the in the past two years had an impacted on the development schedules of a number of developers. Some projects had their completions delayed as many retailers are still cautious and inclined to focus on existing operations rather than opening new outlets or stores.

**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

However, the first quarter saw some modest net demand even amid the emergence of the pandemic followed by city regulations to close public facilities including shopping malls. Between January and March 2020, total net take-up in the market totalled around 9,000 sq m.

Net take-up in this period was concentrated in upper grade and middle-up shopping malls, both segments which have contributed most demand over the past five years. With positive net take-up, mall vacancy in Jakarta was stable from the previous quarter standing at around 10% by the end of March.

Overall, the retail sector in Jakarta remained robust thanks to the growth of online shopping. While online platforms are perceived as competition to bricks-and-mortar shopping malls, they can also be seen as a barometer of the retail demand dynamic in Indonesia.

With lockdown measures still in effect and shopping malls not allowed to open during the PSBB period, retail activity was concentrated around online shopping, which led to a rapid expansion in the e-commerce sector. Accordingly, more tenants began to shift some of their operations to online platforms as well. However, we expect this situation to be temporary - once the restrictions are lifted, people will gradually return to shopping malls.

Meanwhile, recent enquiries in Jakarta's shopping malls continue to be driven by F&B retailers such as restaurants and cafés, followed by lifestyle fashion and apparel stores. These types of retailer are targeting families as well as youth customers or Millennials who are seen as the largest potential market.

With stable vacancy during this period, retail rents were also unchanged as landlords continued to focus on keeping their existing tenants, while trying to lure new ones to fill-up their malls.

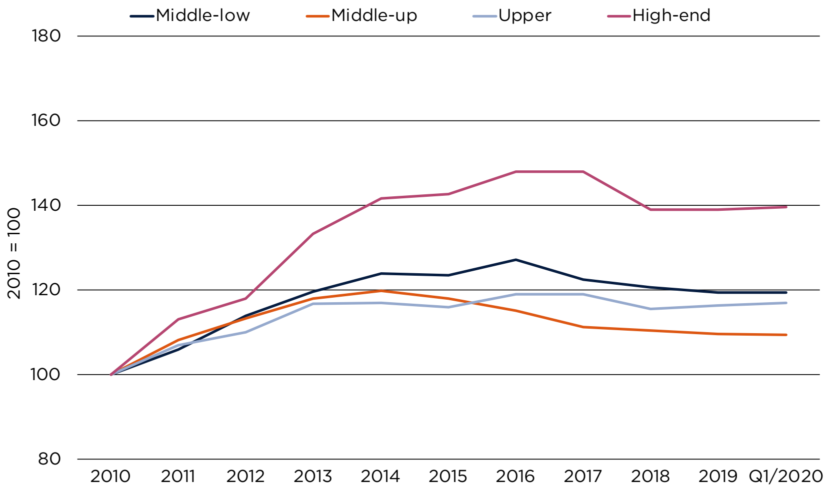
The average rent in Jakarta now stands at around IDR346,000 per sq m per month as of March 2020. Meanwhile, rents in Jakarta's

**TABLE 2: Market Indicators – Rental Shopping Malls in Jakarta**

| | Q1/2020 | Q4/2019 | Q1/2019 | CHANGE (%) | |
|---|---|---|---|---|---|
| | | | | QOQ | YOY |
| **Existing Stock (Sq m)** | **3,171,626** | **3,164,139** | **3,159,139** | **0.2%** | **0.4%** |
| High-end | 427,466 | 427,466 | 427,466 | 0.0% | 0.0% |
| Upper | 1,045,937 | 1,038,450 | 1,038,450 | 0.7% | 0.7% |
| Middle-up | 1,298,242 | 1,298,242 | 1,298,242 | 0.0% | 0.4% |
| Middle-low | 399,981 | 399,981 | 399,981 | 0.0% | 0.0% |
| **Average Rent (IDR per sq m per mth)** | **346,278** | **346,200** | **349,129** | **0.0%** | **-0.8%** |
| High-end | 777,143 | 773,571 | 773,571 | 0.5% | 0.5% |
| Upper | 508,333 | 505,556 | 502,778 | 0.5% | 1.1% |
| Middle-up | 290,292 | 289,326 | 292,818 | 0.3% | -0.9% |
| Middle-low | 211,042 | 211,042 | 213,333 | 0.0% | -1.1% |

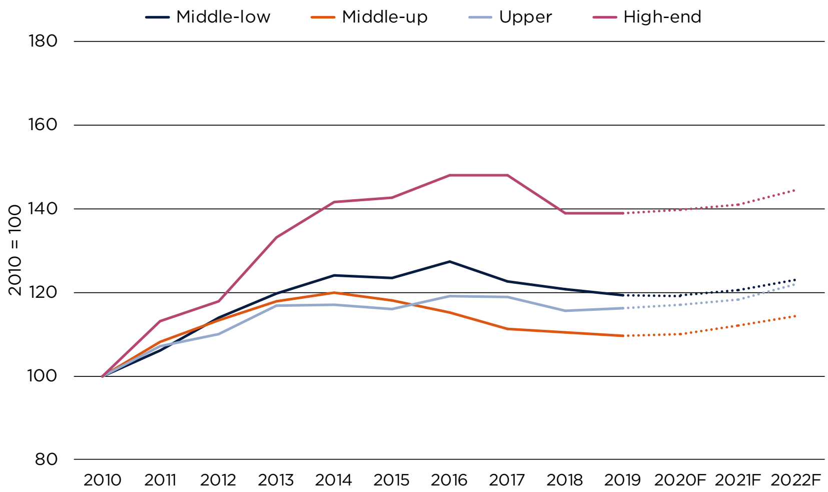
**Source** Savills Research & Consultancy

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




**Source** Savills Research & Consultancy

**GRAPH 8: Rental Index Forecast (Moderate Scenario), 2020 to 2022**




**Source** Savills Research & Consultancy

**TABLE 3: Future Supply – Rental Shopping Malls in Jakarta**

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| Future Supply (Sq m) | 209,155 | 82,000 | 154,910 |
| High-end | - | - | - |
| Upper | 146,879 | 16,000 | 11,910 |
| Middle-up | 62,276 | 66,000 | 143,000 |
| Middle-low | - | - | - |
| Central Jakarta | 65,255 | 31,000 | 24,910 |
| South Jakarta | 117,400 | - | - |
| North Jakarta | - | 25,000 | 100,000 |
| West Jakarta | 26,500 | 26,000 | - |
| East Jakarta | - | - | 30,000 |

**Source** Savills Research & Consultancy

high-end malls average around IDR780,000 per sq m per month for typical specialty stores on prime floors. Furthermore, rents in upper grade and middle-up shopping malls are charged at around IDR508,000 and IDR290,000 per sq m per month, respectively and in middle-low shopping malls, rents currently average around IDR211,000 per sq m per month.

## WHAT IS THE OUTLOOK?

The unprecedented disruption caused by the pandemic has impacted the retail sector in Jakarta. Both supply schedules and demand dynamics are likely to experience a further slowdown in the short term.

On the supply side, we expect to see delays in project openings due to the pandemic. With foot traffic to existing malls to cease until the government allows them to open, developers will wait for better times to open their malls. A number of major projects are scheduled for completion this year which include Mal Pondok Indah 3, AEON Mall South Gate, Holland Village, Green Sedayu Mall, including Senayan Park which have entered the final construction stage. However, it is highly likely that the opening schedule of some of these malls will be postponed to next year.

Overall, we anticipate around 370,000 sq m of future supply will enter the retail market in Jakarta between now and 2023. By grade, most are categorized as middle-up malls (around 60%) with the remainder from upper grade malls. By location, the upcoming supply is distributed in North Jakarta at 28%, South Jakarta at 27% and Central Jakarta at 26%. West Jakarta and East Jakarta account for about 12% and 7%, respectively.

Generally, the retail sector in Indonesia will continue to attract investors due to its large population base and rising middle class. Growing investor appetite to acquire malls in Indonesia garnered a buzz in 2019. Notable deals included NWP Retail (Nirvana Wastu Pratama), Indonesia's largest independent retail platform backed by Warburg Pincus, taking over malls from Lippo group. NWP entered into conditional sale and purchase agreements to buy five malls located across the country in 2019 for a reportedly IDR1.8 trillion. The deal marked growing participation of international operators in Indonesia's retail market – following the expansion of Korean and Japanese retail developers.

In Jakarta, successful upgrades in several shopping malls have had a positive impact on their performance, which has inspired other landlords to refresh their projects to attract more tenants and visitors. Among other landlords who plan to renovate their malls are the owners of Melawai Plaza and Gajah Mada Plaza.

Looking ahead, Indonesia's dynamic and youthful retail scene is likely to continue to attract international interest once the pandemic recedes. In the interim, online offerings will dominate while local F&B may also prove to be more durable.

## GLOSSARY

- The Jakarta retail market covers the administrative region of DKI Jakarta, which is defined based on municipality i.e.: Central Jakarta, South Jakarta, East Jakarta, West Jakarta and North Jakarta.

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

- High-end malls refer to shopping centers located in prime CBD areas with international standard features and rated as the highest rank in terms of building size, quality, tenancy mix and profile, facilities, maintenance etc.

- Upper-grade malls refer to shopping centers located in strategic areas with excellent quality and rated as the second highest rank in terms of building size, quality, tenancy mix and profile, facilities, maintenance etc.

- Middle-up malls refer to shopping centers located in good areas with good quality and rated as the third highest rank in terms of building size and quality, tenancy mix and profile, facilities, maintenance etc.

- Middle-low malls refer to shopping centers located in decentralized areas with standard quality and rated as the lowest rank in terms of building size and quality, tenancy mix and profile, facilities, maintenance etc.

- Vacancy rate refers to the ratio of vacant available retail 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 a retail 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 assumptions that the general economic conditions to improve significantly (i.e. better GDP growth and positive macro environment) which will lead to a more robust purchasing power and consumer spending, thus generate significant retailer expansion, which would be reflected in significant take-up increase.

- Moderate Scenario - Based on assumptions that the general economic conditions to grow moderately (i.e. stable GDP growth and neutral macro environment) which will provide a foundation for steady consumer spending and positive retailer expansion.

- Pessimistic Scenario - Based on assumptions that the general economic conditions to weaken (i.e. lower GDP growth and negative macro environment) with lack of retailer expansion and weak consumer spending.

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