

Indonesia - March 2021

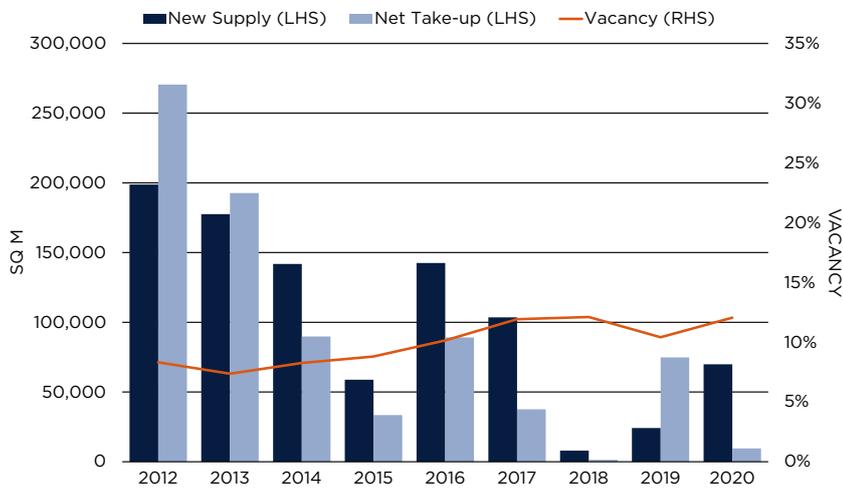
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SPOTLIGHT
Savills Research

Jakarta Shopping Malls



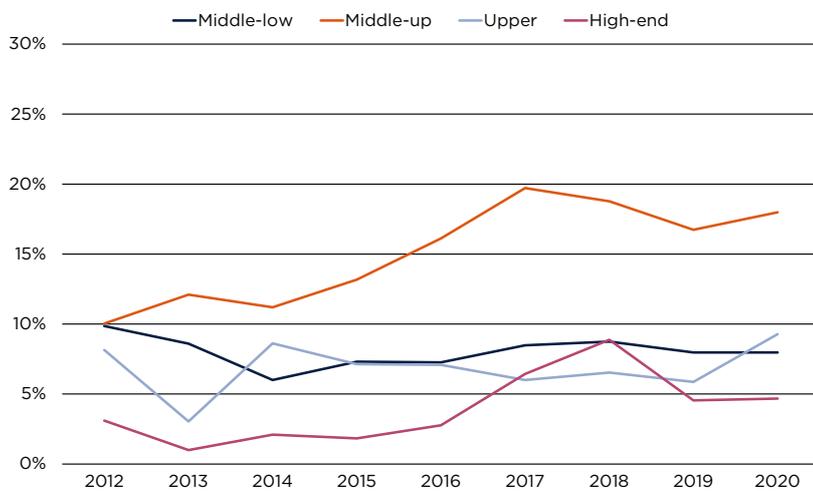
Jakarta malls adjust to a “new normal”

GRAPH 1: Retail Supply, Demand and Vacancy, 2012 to 2020



Source Savills Research & Consultancy

GRAPH 2: Shopping Mall Vacancy by Grade, 2012 to 2020



Source Savills Research & Consultancy

ECONOMIC OVERVIEW

Indonesia’s GDP plunged 2.07% in 2020 – a marked downturn from the previous year when the country recorded growth of 5.02%. SEA’s biggest economy last experienced a contraction in 1998, when GDP fell by 13.1% during the Asian Financial Crisis.

In 2020, household consumption, which contributes more than half of Indonesia’s GDP, fell by 2.63% year-on-year (YoY), after an increase of 5.04% in 2019. Meanwhile, unemployment data released last August showed that the unemployment rate stood at 7.07%, the highest in the last decade.

As the economy was shattered by the pandemic, transactions in the property market fell heavily across all sectors, causing developers and investors to step back from their planned expansion in 2020.

For 2021, the government set a GDP target of between 4.5% to 5.3% growth, while The World Bank projects Indonesia will record 4.4% economic growth. Many analysts believe that the outcome will depend on the gradual easing of mobility restrictions and the wide availability of an effective and safe vaccine.

SUPPLY AND DEMAND

After a strong rebound in 2019, the retail market in Jakarta suffered a major blow in 2020 as the pandemic hit the sector quite badly. The situation deteriorated further as the government imposed strict social distancing rules in the capital city from April 2020, which remain at the time of writing, albeit at reduced levels.

With four additional malls entering the market in 2020 (total approx. 70,000 sq m NLA), total retail stock increased to approx. 3.2 million sq m. Combined with low net

TABLE 1: Market Indicators - Shopping Malls in Jakarta

	2H/2020	1H/2020	2H/2019	CHANGE (%)	
				HOH	YOY
Existing Stock (Sq m)	3,234,029	3,171,626	3,164,139	2.0%	2.2%
High-end	427,466	427,466	427,466	0.0%	0.0%
Upper	1,088,340	1,045,937	1,038,450	4.1%	4.8%
Middle-up	1,318,242	1,298,242	1,298,242	1.5%	1.5%
Middle-low	399,981	399,981	399,981	0.0%	0.0%
Average Rent (IDR per sq m per mth)	292,584	343,765	346,200	-14.9%	-15.5%
High-end	650,571	766,429	773,571	-15.1%	-15.9%
Upper	401,081	496,053	505,556	-19.1%	-20.7%
Middle-up	243,311	288,521	289,326	-15.7%	-15.9%
Middle-low	198,354	210,417	211,042	-5.7%	-6.0%

Source Savills Research & Consultancy

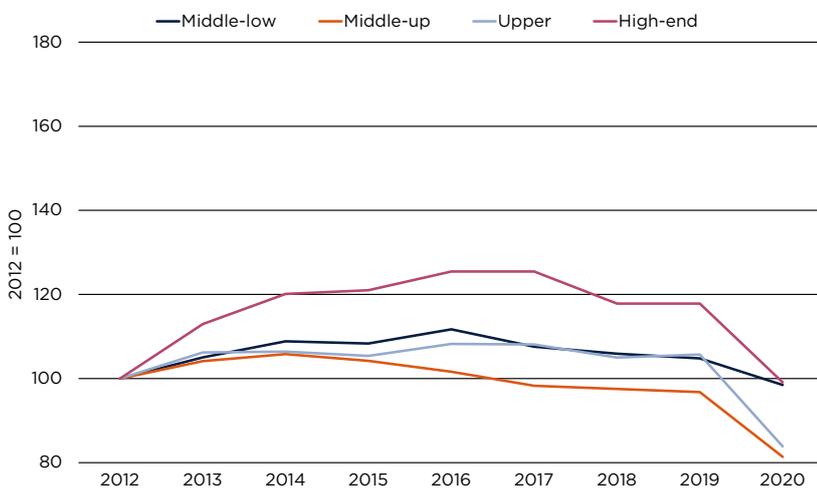
take-up of less than 10,000 sq m throughout the year, vacancy rose to 12.1% from 10.4% in 2019.

Upper grade malls experienced the biggest spike in vacancy (YoY) which currently stands at 9.3% from 4.5% in 2019, but middle-up grade malls are still posting the highest vacancy at 18% by end-2020. Meanwhile, vacancies in middle-low and high-end malls remain stable from a year ago.

Concerned over the prolonged impact of the pandemic, a number of retailers who had already committed to new shopping

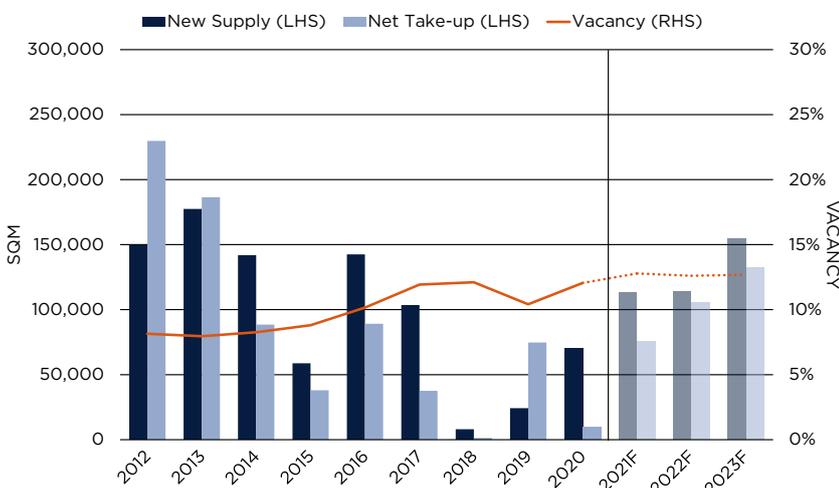
Under pressure from tenants, mall landlords have been pushed to provide rental relief and other incentives in order to maintain occupancy and increase traffic.

GRAPH 3: Retail Rental Index by Grade, 2012 to 2020



Source Savills Research & Consultancy

GRAPH 4: Overall Retail Supply, Demand And Occupancy Forecast, 2012 to 2023F



Source Savills Research & Consultancy

malls decided to postpone their opening schedules. This has inevitably had an effect on newly-completed projects which have suffered very low occupancy during their initial period after opening.

RENT

Social distancing rules ordered by the Jakarta government have been a major hindrance for retailers in malls. Under strong pressure from their tenants, landlords have been pushed to provide rental relief (up to around 50%) and other incentives to maintain occupancy and attract traffic. As a result, the market saw rental rates drop heavily across the board. Overall, mall rents were cut by 15% YoY to an average of IDR292,584 per sq m per month by end-2020.

Upper grade malls experienced the biggest contraction of around 21% compared to the previous year, while rents in middle-up and high-end malls both corrected by around 16% YoY. Currently, rents in Jakarta's high-end malls are averaging around of IDR650,000 per sq m per month, while rents in upper grade and middle-up grade malls are around IDR401,000 and IDR243,000 per sq m per month, respectively. Rents in middle-low grade malls are averaging around IDR198,000 per sq m per month.

MARKET OUTLOOK

While retail activity is not yet back to pre-pandemic levels, a partial resumption of work has helped increase footfall by 10% to 20% so far this year. However, landlords are likely to remain cautious and developers may reconsider development schedules for their retail projects. Currently, a total of approx. 1.2 million sq m of future supply is in the pipeline over the next five years, of which around 113,500 sq m will enter the market in 2021. This is expected to bring vacancy up to around 13%-14% before demand will be able to balance supply growth projected from 2022 onwards.

In the meantime, malls need to adapt to current conditions and implement a 'new

TABLE 2: Future Supply – Shopping Malls in Jakarta

	2021F	2022F	2023F
Future Supply (Sq m)	113,500	114,276	154,910
High-end	-	-	-
Upper	103,500	16,000	11,910
Middle-up	10,000	98,276	143,000
Middle-low	-	-	-

Source Savills Research & Consultancy

normal' approach for both tenants and visitors. The pandemic will likely transform consumer behaviour and change how retailers operate for a considerable amount of time. Furthermore, with e-commerce gaining traction during the pandemic, we are of a view that mall landlords need to step up to integrate the e-retailing model and online platforms into their operations. This also means that landlords should be more flexible to when dealing with tenants, who are currently struggling to survive the current crisis.



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