

RETAIL SERVICES FORECAST REPORT

Optimising retail spaces: Mall owners respond to positive shopping trends






Semi Annual | Surabaya | July 2024

Insights & recommendations

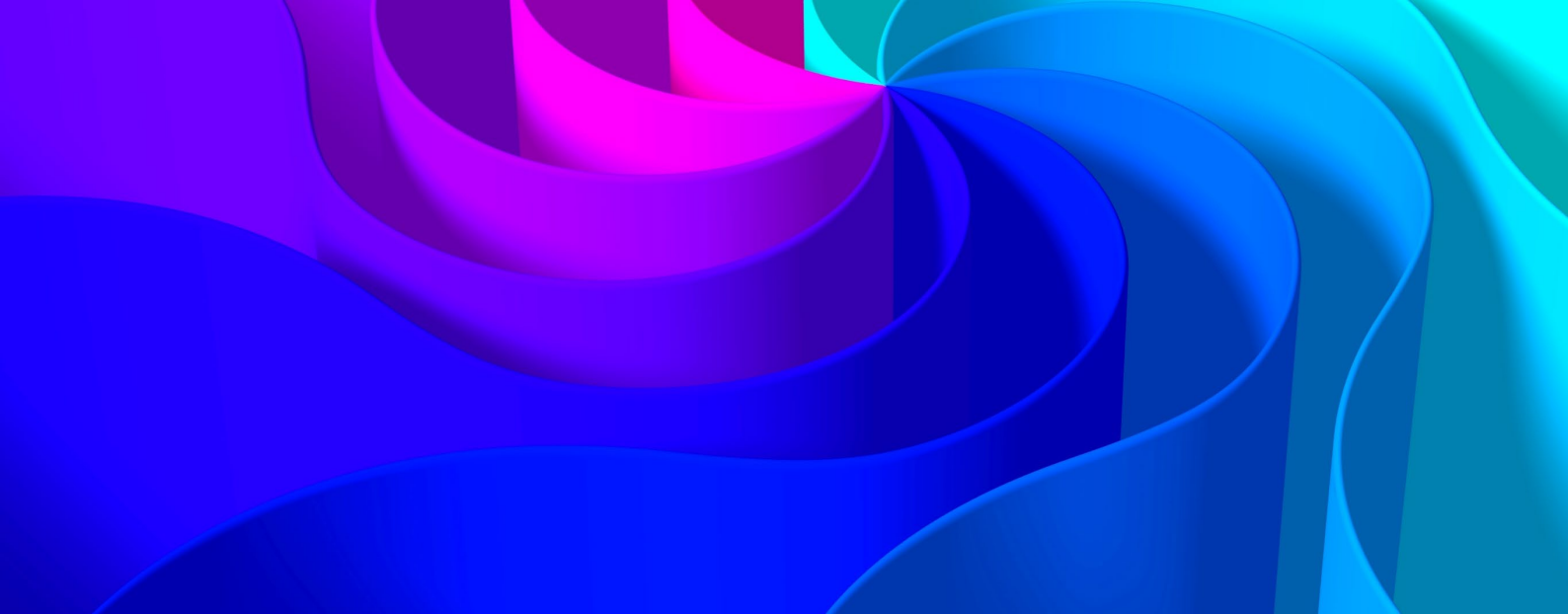
The resurgence of shopping activity, particularly during festive periods, is gradually sending a positive signal to mall owners. Currently, landlords are focusing on enhancing the tenancy mix to create a more appealing shopping environment. In response to these efforts, some brands recognise improved opportunities to expand their presence.

However, the recovery is not yet complete. Some malls continue to face challenges and require more intensive leasing efforts to secure new tenants and improve occupancy levels.

In the pursuit of excellence in the retail landscape, forward-thinking landlords are optimising previously vacant spaces. Action plans include adding alfresco dining options, implementing creative interior designs and maximising the use of mall atriums for events. These strategies are becoming key components of landlords' efforts to enhance the overall shopping experience and attract both tenants and customers.

		H1 2024	Full Year 2024	2024-26 Annual Avg
 Demand	More well-known brands are expected to open new branches, while cumulative demand is projected to increase by about 6% per year during 2024-2026.	↓ -9,200 sq m	↑ 52,290 sq m	↑ 50,602 sq m
 Supply	New projects are limited, but the cumulative supply is expected to grow by around 2% per annum from 2024 to 2026.	↓ 0 sq m	↑ 36,920 sq m	↑ 19,322 sq m
		HOH/ End H1	YOY/ End 2024	Annual Avg Growth 2024-26/ End 2026
 Rent	As demand strengthens, it brings confidence that rents will grow by around 3% per year during 2024-2026.	↔ 0% IDR445,422	↑ 2% IDR453,701	↑ 2% IDR473,895
 Vacancy	Vacancy is expected to decrease by about 2% per year during 2024-2026, thanks to the performance of middle-to upper-class shopping malls.	↔ 0.9 27.8%	↓ -2.4 24.5%	↓ -3.4 16.8%
 Service Charge	Minimal fluctuations are anticipated in service charges until 2026, with annual upticks expected to hover between 2% and 3%.	↔ 0% IDR140,739	↑ 3% IDR142,421	↑ 2% IDR151,095

Source: Colliers. Note: IDR16,174 = 1 USD. 1 square m = 10.76 square ft.



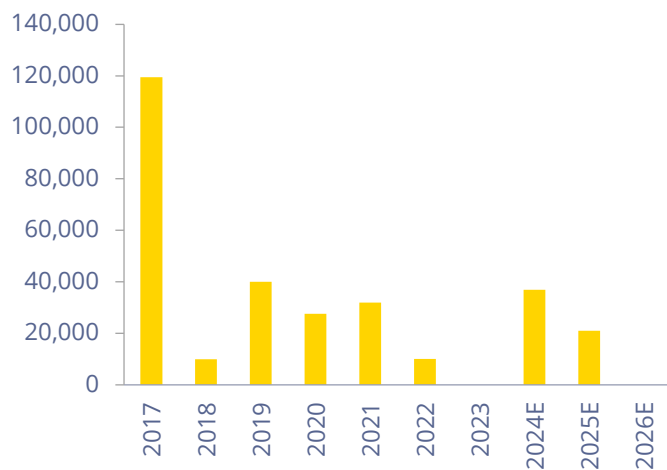
Supply

Landlords to optimise existing mall spaces amid a lack of new projects

As of the first half of 2024, no new mall construction has been completed in Surabaya, leaving the cumulative supply unchanged at 1.21 million sq m. However, several ongoing projects are expected to be completed on schedule. These include Pakuwon City Mall Phase 3, set to open in the second half of 2024, followed by Capital Square Lifestyle Plaza.

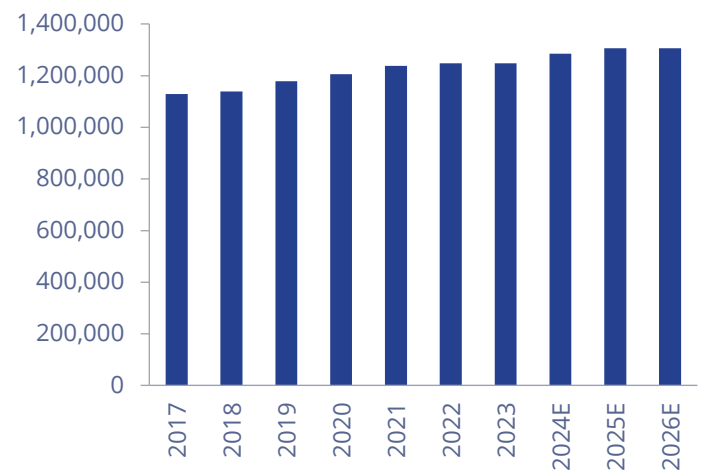
Additionally, more landlords are currently planning to rejuvenate the appearance of their malls and optimise spaces that were previously underutilised as retail areas.

Annual supply (sq m)



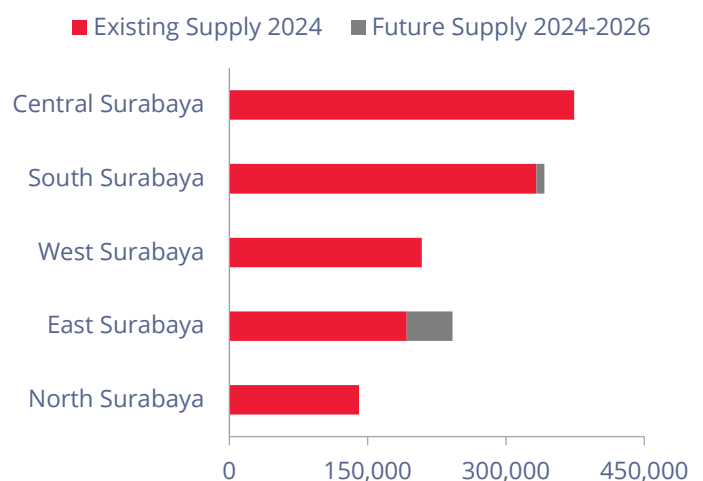
Source: Colliers

Cumulative supply (sq m)



Source: Colliers

Cumulative supply by area (sq m)



Source: Colliers



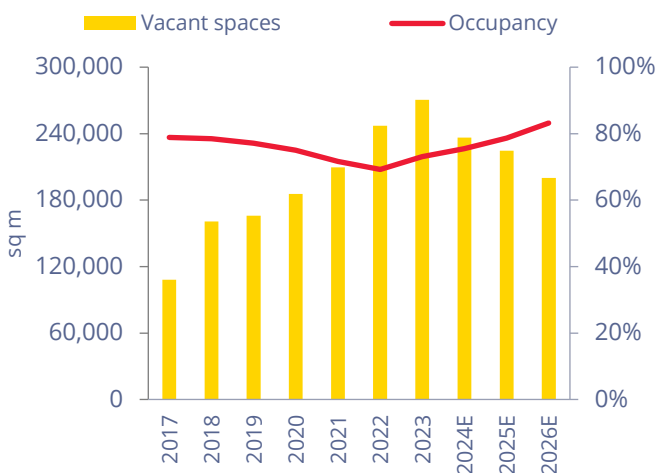
Demand

Visitor surge boosts retail confidence and occupancy in Surabaya malls

Mall owners are encouraged by the consistent flow of visitors, which reflects a strong consumer market and supportive retail environment. Key events, such as Eid al-Fitr, Chinese New Year and local city events, continue to draw crowds to malls. This has bolstered retailer confidence, leading to expected improvements in occupancy levels, especially in malls targeting the middle- to upper-market segments.

In contrast, malls with lower occupancy rates are actively hosting events aimed at students, school groups, extracurricular activities and fashion shows to boost foot traffic.

Occupancy

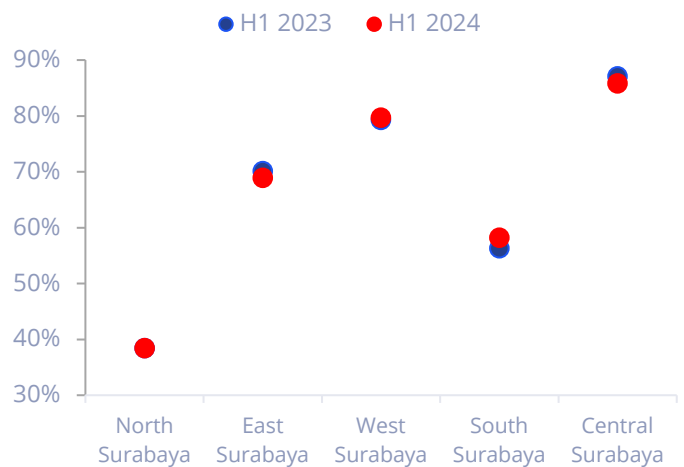


Source: Colliers

On the retailer side, several prominent brands from Jakarta have expanded into Surabaya, opening their first stores in the city. Examples include Gion The Sushi Bar, a luxury Japanese restaurant, and Godiva, a premium chocolate brand. The food and beverage sector remains highly popular in malls, significantly contributing to overall visitor numbers and playing a crucial role in the rental mix. Furthermore, the presence of fitness centres in malls is growing, occupying substantial spaces and meeting increasing lifestyle demands.

The positive developments over the past six months have increased the occupancy rate to 74.2% as of H1 2024, marking a 2% rise from the same period in 2023. Although the occupancy rate may face pressure from new supply, securing commitments from high-quality tenants is expected to sustain the positive trend of the retail industry in Surabaya going forward.

Occupancy by area



Source: Colliers

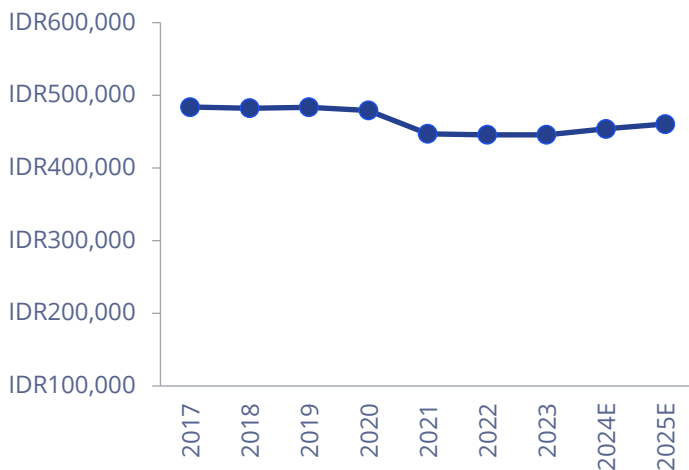


Rental rate and Service charge

Cautious rent adjustments anticipated as landlords focus on stability and growth

The anticipated increase in retail activity, driven by a growing number of visitors to malls, has prompted landlords to consider adjusting occupancy costs. Despite the potential for increased revenue, landlords are proceeding cautiously, recognising the need for a more robust economic recovery before making any changes. This careful approach ensures that tenant stability remains a priority, fostering a sustainable retail environment.

The average rent at specialty store

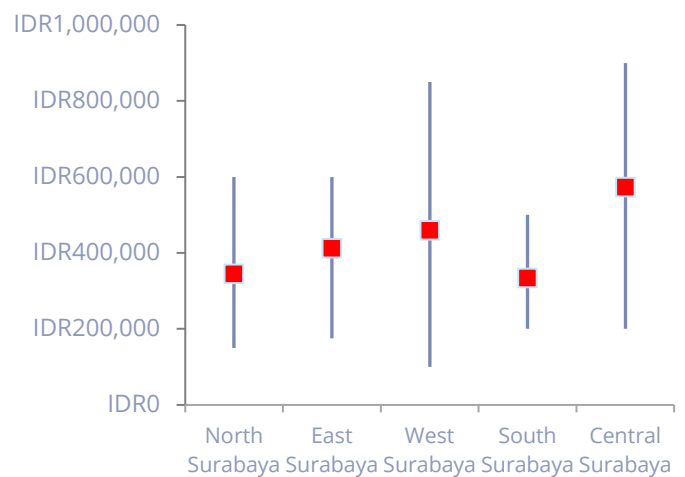


Source: Colliers

Moreover, the consistent performance of existing malls, coupled with limited new mall developments, has kept the average base rent steady at IDR445,422 in H1 2024. Similarly, the service charge has remained steady at around IDR140,000. This stability reflects landlords' strategic efforts to balance potential rent

increases with the current economic conditions. Shopping malls that have maintained high occupancy rates and strong sales are well-positioned to justify future adjustments in occupancy costs.

Ranging asking rents by area



Source: Colliers

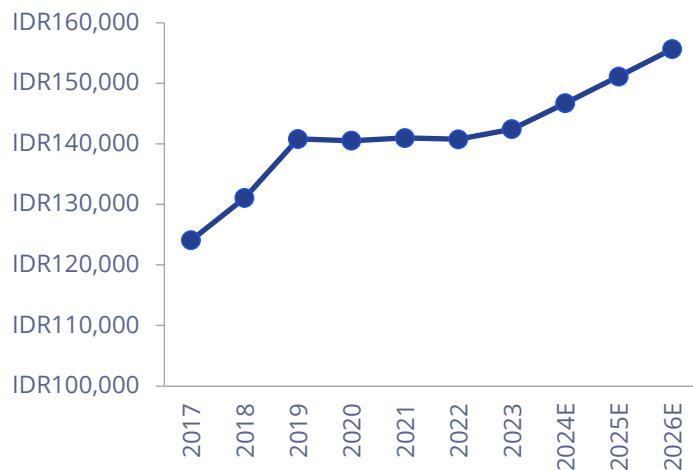
In contrast, newer and upcoming malls may offer competitive rates to attract desirable tenants and establish themselves in the market. Malls still striving for optimal occupancy levels are focusing on acquiring tenants rather than immediate rent optimisation. Given the market's ongoing recovery from the pandemic and potential economic uncertainties, many landlords prefer stability in both base rents and service charges to maintain occupancy rates.

Looking ahead to the second half of 2024, the market outlook remains cautiously optimistic. Landlords should continue their measured approach, implementing any significant rent adjustments



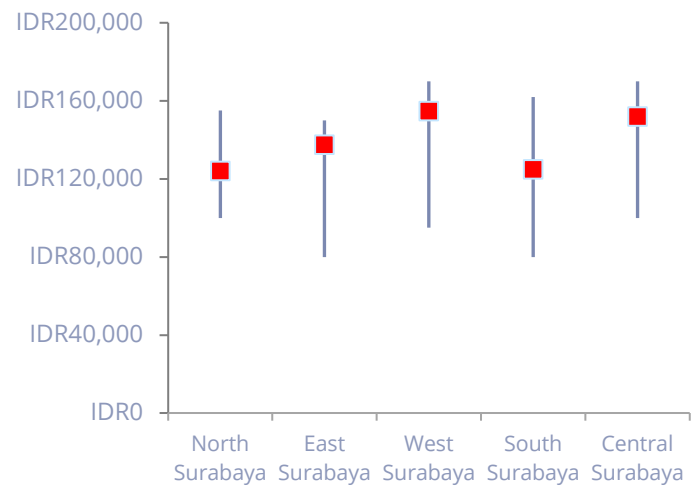
gradually and in alignment with sustained improvements in market conditions and individual mall performance.

Service charge



Source: Colliers

Ranging service charge by area



Source: Colliers

Appendix

Under construction projects

Project Name	Region	Developer	Expected NLA (sq m)
2024			
Pakuwon City Mall (East Coast Centre) 3	East Surabaya	Pakuwon	36,920
2025			
Samanea (Capital Square)	South Surabaya	Greenwood Sejahtera	8,500
Lagoon Avenue Dharmahusada	East Surabaya	PP Properti	12,545

Source: Colliers



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