

Signs of Recovery Still Far Away

Summary & recommendations

In a challenging business environment, tenant retention has been a key priority. Significant disruption to occupier demand has continued to swing the pendulum in favor of the tenant market for the time being. Looking ahead, the overall outlook for the year remains uncertain, considering the absence to date of an economic recovery. Uncertainties and underlying risks remain, as the pandemic continues to evolve globally.

Landlords need to continue adapting by communicating and negotiating in creative ways during times when it is difficult to secure tenants. The provision of incentives and mutual agreements between landlords and tenants are expected to encourage lease renewals and tenants to stay on in the future.



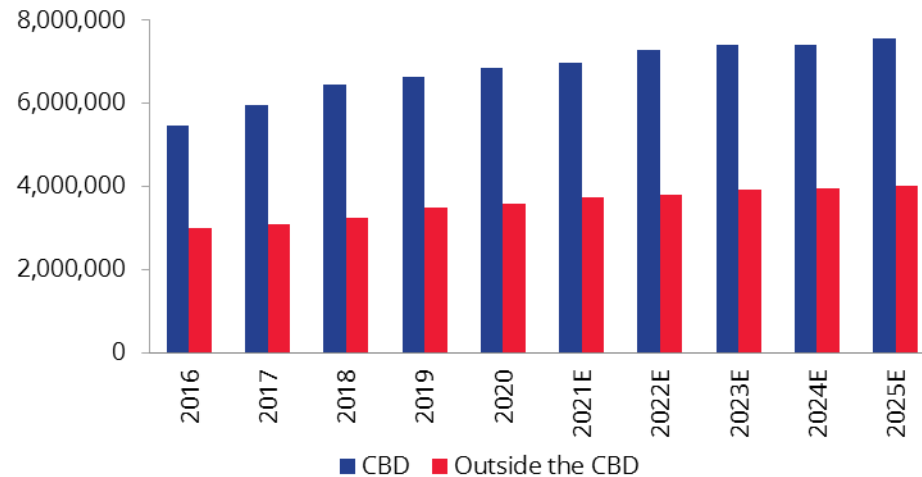
	Q2 2021	Full Year 2021	2021-24 Annual Average
 <p>Demand</p> <p>Economic growth is a strong catalyst in improving office demand. Looking at the current conditions, leasing activity will continue to be dominated by cost-saving and consolidation requirements, with new and expansion demand remaining limited.</p>	 7,262 sq m	 65,153sq m	 56,646 sq m
 <p>Supply</p> <p>Apart from those in the pipeline, several projects that are the subject of talks are expected to be realized soon. However, nowadays, it is more difficult to predict when landlords will start to develop again with confidence.</p>	 106,000 sq m	 266,231 sq m	 227,681 sq m
	QOQ / End Q2 2021	YOY / End 2021	Annual Average Growth 2021-24 /End 2024
 <p>Rent</p> <p>In the event of further unforeseen events, or a delay in economic recovery, rents are expected decline further.</p>	0.54%  IDR226,986	8.15%  IDR215,157	0.63%  IDR220,650
 <p>Vacancy</p> <p>A combination of new supply and some companies being likely to reduce their office footprint will lead to subletting and disposals. Consequently, vacancy rates are expected to increase sharply within the next two to three years.</p>	1.12%  21.1%	2.62%  21.78%	0.72%  24.66%
 <p>Selling price</p> <p>A release of assets, despite expectations of relatively thin capital gains, will occur in the secondary market. However, that has yet to affect the average selling price, which is expected to be relatively stable until 2022.</p>	0.25%  IDR44.7mio	1.53%  IDR45.2mio	1.46%  IDR47.9mio

Source: Colliers Indonesia
 Note: USD1 to IDR14,496 at the end of Q2 2021.

Some project completions postponed due to construction delays, financing or market conditions

Rasuna Said has actively contributed to new office supply in the CBD in consecutive quarters. Trinity Tower (previously known as Daswin Tower) began operating officially and brought the cumulative supply to 6.96 million sq m in Q2 2021. The progress of construction of future office buildings was recorded as still relatively slow and the completion of those buildings will likely be rescheduled.

Rescheduled, future supply boom in 2022



Source: Colliers Indonesia

We also recorded active supply growth outside of the CBD. Wisma Barito Pacific 2 was officially in operation, bringing the cumulative supply to 3.63 million sq m in Q2 2021. Several other buildings are also expected to be ready in the second half of 2021. As with the CBD, the additional office supply is also estimated to be relatively limited in the next two to three years.

The completion reschedule is indicative of the fact that construction activity continues to be impacted significantly during the second wave of the pandemic. Developer sentiment has been, understandably, affected by a cocktail of uncertainty, spiraling build costs and aversion to risk among lenders. Although the supply pipeline is relatively limited at least for the next 2-3 years, it is noted several potential projects are currently in the planning stages. It is quite possible, should the pandemic be resolved, the economy recovers and landlords engage committed tenants, that a start on the projects will likely be imminent.

Without dominant sector, the vacancy rate is poised to rise

The average occupancy rate has continued in a downward trend. In the CBD, the average occupancy rate was recorded at 79.2% in Q2 2021, a drop of 1.1% QOQ. This is the first time the average occupancy rate in the CBD has fallen below 80%. The average occupancy rate in the CBD is expected to continue to decline up to the end of 2021. However, with additional supply expected to be relatively limited, the occupancy rate decline is not as drastic as it has been in previous quarters. Outside the CBD, the average occupancy rate was recorded at 78.4%, a drop of 1.2% QOQ. Conversely, a relatively larger additional supply outside the CBD may result in a continuation in the decline in the average occupancy rate to 2%-2.5% by the end of 2021.

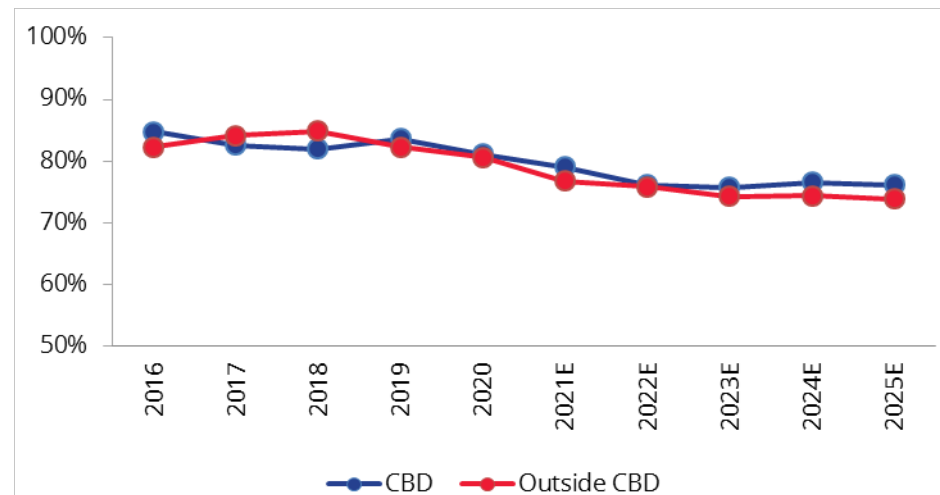
Despite still being in a negative phase, the demand level for office space, especially in the CBD, remains dynamic, fuelled by industries such as shipping, logistics, animal food processing, ecommerce, consumer products and construction still looking for new spaces, either in existing buildings or as expansions. Demand for office space might derive from state owned companies that plan to build their own

buildings. When the construction period starts, they might search for a temporary office space in commercial office buildings (swing demand).

On the flipside, we note that there have been several large-scale office tenant space reductions by companies in the insurance, technology, services, hospitality, travel and retail industries. However, this reduction in spaces by companies does not mean a decrease in business performance, but is more because of cost efficiencies.

Coworking space is also being re-optimized as a business models, because for some time its expansion has been too aggressive. Currently, several big players in the coworking space business are reducing expenses by seeking early terminations or renegotiations with landlords, especially in terms of lease periods. However, the future of coworking space is expected to brighten, because many companies impacted by pandemic will adopt greater business flexibility in the future.

Jakarta occupancy has dropped in five consecutive quarters



Source: Colliers Indonesia

This is perhaps the best time to negotiate; rents are expected to be more range bound

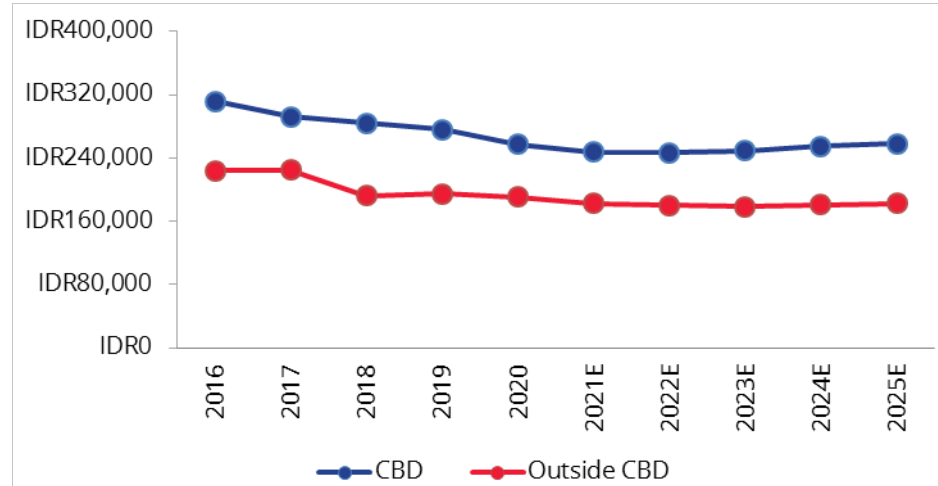
A tumultuous year has made a significant dent in office rents. Firms that have downsized have had an impact on occupancy, and rents continue to come under pressure from shadow space and large future supply. Landlords with emerging vacancies began to adjust rental expectations by a larger magnitude. Currently the average rent in the CBD has been recorded at IDR249,537. We noted around 15% of total operating office buildings have reduced rental rates, which are forecast to continue to decline, leading to a full year 2021 rental correction of 4% YOY in the CBD.

Conversely, outside the CBD, the average rent has increased to be registered at IDR185,447 in Q2 2021. This growth was due to the operation of new office buildings that set higher rents than the market average for the area outside the CBD. Nevertheless, due also to new building completions, the average rent in the area outside of the CBD is expected to contract by the end of 2021.

In what is still a tenant market situation, landlords mostly continue to be accommodative of the demands of occupiers and offer competitive transacted rents to tenants. Lot incentives are also being provided, such as fitting out allowances and rent free periods. The fitting out cost can be paid in installments over the period the tenant occupies the building. Rent free periods commonly given by landlords range from 1 to 12 months, depending on how large a space a tenant will occupy in the building.

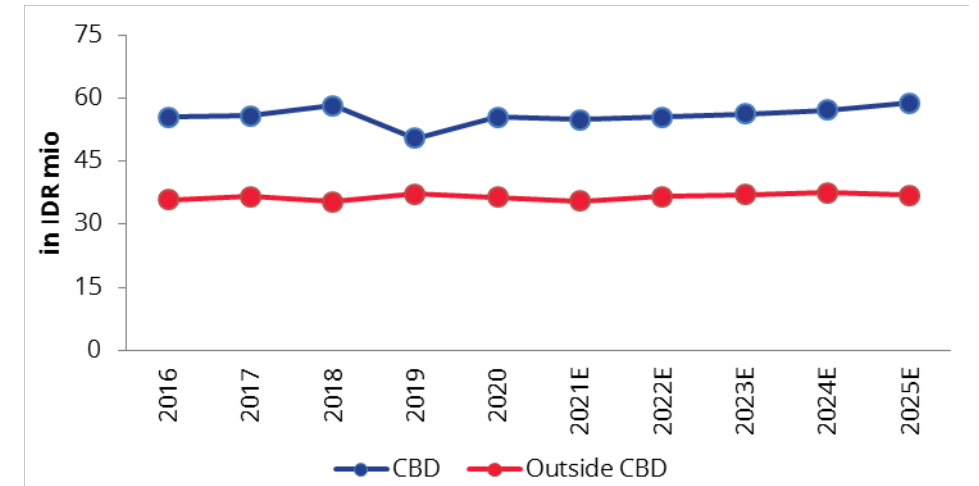
Meanwhile, the average service charge has remained relatively stable in the past 18 months. In the CBD, the service charge was registered at IDR82,193, and at IDR61,953 in the area outside the CBD. Some landlords are currently also provided service charge discounts.

Jakarta rent contracted by about 3% in the past six months



Source: Colliers Indonesia

Selling prices tend to be stable



Source: Colliers Indonesia

Strata market is still quiet

The strata market has been relatively stable. The average selling price has been still relatively flat, in line with very low sale transactions recorded so far 2021. Landlords or unit owners seem to be waiting for the right time to act. Currently, the average selling price has been recorded at IDR54.4 million in the CBD, and IDR35.1 million in the area outside the CBD. Average selling prices are expected to be relatively stable up to the end of 2021. The leased office market is expected to improve after 2022, and likely will have an impact on the strata market. Other than that, we expect limited additional for sale office supply up to 2024.

Appendix

New pipeline

Name of Development	Location	Region	Developer name	SGA (sq m)	Marketing scheme	Development progress
CBD						
2021						
Office One	Rasuna Said	South Jakarta	Sentra Graha Sentosa	16,357	For Sale	Under construction
2022						
T Tower (BJB Tower)	Gatot Subroto	South Jakarta	BPD Jabar	24,000	For Lease & Sale	Under construction
Thamrin Nine	Thamrin	Central Jakarta	Putra Gaya Wahana	97,500	For Lease	Under construction
Menara BRI	Gatot Subroto	South Jakarta	Bank Rakyat Indonesia	60,000	For Lease	Under construction
Jakarta Office Tower by MORI	Sudirman	Central Jakarta	MORI Building	90,000	For Lease	Under construction
St Regis Office Tower	Rasuna Said	South Jakarta	Rajawali Group	40,000	For Lease	Under construction

continued

Name of Development	Location	Region	Developer name	SGA (sq m)	Marketing scheme	Development progress
<i>continuation</i>						
2021						
Indonesia Satu North Tower	Thamrin	Central Jakarta	China Sonangol Media Investment	62,000	For Lease & Sale	Under construction
Indonesia Satu South Tower	Thamrin	Central Jakarta	China Sonangol Media Investment	65,500	For Lease	Under construction
Outside CBD						
2021						
Sanggala Tower	TB Simatupang	South Jakarta	Sapta Tunggal Mulia	9,900	For Lease & Sale	Under construction
Pondok Indah Office Tower 5	Pondok Indah	South Jakarta	Metropolitan Kentjana	37,177	For Lease	Under construction
The Sima	TB Simatupang	South Jakarta	Grage Trimitra Usaha	59,169	For Lease & Sale	Under construction
<i>continued</i>						

Name of Development	Location	Region	Developer name	SGA (sq m)	Marketing scheme	Development progress
<i>continuation</i>						
2022						
One Belpark Office	Fatmawati	South Jakarta	Harmas Jalesveva	17,800	For Lease	Under construction
Owner Suite by Dharmawangsa	Dharmawangsa	South Jakarta	Dharma Tatemono	24,000	For Sale	Under construction
MTH 27 Office Suite	MT Haryono	South Jakarta	Adhi Karya	25,000	For Sale	Under construction
2023						
Lippo Tower Holland Village	Cempaka Putih	Central Jakarta	Lippo Karawaci	27,000	For Sale	Under construction
Menara Jakarta Office Tower	Kemayoran	Central Jakarta	Agung Sedayu	90,000	For Lease & Sale	Under construction

Source: Colliers Indonesia



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Primary Authors:

Eko Arfianto

Senior Manager | Research | Jakarta
62(21) 3043 6726

Eko.Arfianto@colliers.com

For further information, please contact:

Ferry Salanto

Senior Associate Director | Research | Jakarta
62(21) 3043 6730

Ferry.Salanto@colliers.com

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