

# THE UNCERTAINTY STILL REMAINS

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## Summary & Recommendations

The relaxed large-scale social restriction (PSBB) regulation has brought some good news for developers. Offline channels can be enacted again, as marketing galleries and show units are allowed to be open. However, sales performance has remained dull since the conditions continue to be uncertain as the daily COVID-19 cases have been increasing and the economic growth in Q2 2020 plummeted - 5.32%. Potential customers have continued to adopt wait-and-see action, although currently it is still a market that favours buyers.

These uncertain conditions create hurdles for developers too. Some developers have decided to hold back sales activities and construction progress on relatively newly introduced projects. Thus, they have to focus on finishing their current projects to survive during this time period. However, we believe after this pandemic ends, the economy will recover and so will the market.

	Q3 2020	Full Year 2020	2020-24 Annual Average
 <b>Demand</b> <p>&gt; It has been three consecutive quarters for stagnant demand. This will most likely continue until the end of this year. We hope there will be a slight improvement next year.</p>	 <b>87.7%</b>	 <b>87-88%</b>	 <b>87-89%</b>
 <b>Supply</b> <p>&gt; Several projects are on hold; thus, average supply will be limited by an average of 7,295 units per year until 2024.</p>	 <b>649 unit</b>	 <b>3,034 unit</b>	 <b>7,295 unit</b>
	<b>QOQ / End Q3</b>	<b>YOY / End 2020</b>	<b>Annual Average Growth 2020-24 / End 2024</b>
 <b>Price</b> <p>&gt; The low level of demand leads to idle growth of asking price. However, we predict the economy will recover during the next years, allowing price to grow.</p>	 <b>IDR34.96 million/sq m</b>	 <b>IDR3 million/sq m</b>	 <b>IDR40.9 million/sq m</b>

Source: Colliers International

Note: USD1 to IDR14,918 at the end of Q3 2020. 1 sq m = 10.76 sq ft

## MACRO INSIGHT

Bank Indonesia has decided to slash the policy rate by 25 basis points (bps) in mid-July, making the fourth cut during the COVID-19 pandemic, totalling 100 bps to 4.00%. Again, we do not expect it will help much to boost apartment sales, unless the cut rate is implemented by all conventional banks on the ground.

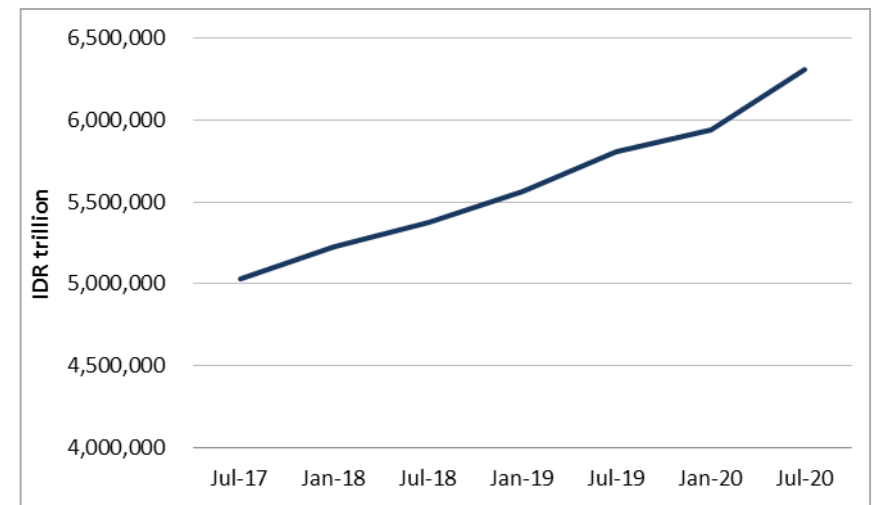
The uncertainty of the economic condition has led investors to adopt a wait-and-see approach. This situation is reflected by the significant jump of the third-party fund from January to July 2020 by 6.2%, compared to the same period in 2018 and 2019 at 2.9% and 4.5%, respectively. People tend to save money to anticipate losing jobs or at least taking a pay cut due to economic uncertainties. Further, if this condition continues in the longer term, it might be harmful to the economy as in the economics theory called paradox of thrift.

In order to mitigate the negative impact of the pandemic, the government has planned to expand the stimulus programme for the property sector, including mortgage payment holiday, luxury tax removal and tax incentives.

- Mortgage payment holiday is still in planning. The government current stimulus programme for loan restructuring due to COVID-19 is mostly for small-medium enterprise (SME) and corporate loan; while for mortgage, there are no specific details and it is still being discussed. We are of the view that this measure is only applicable to existing borrowers. Hence, it will not have much impact on creating new property demand;
- Luxury tax removal plan: we think that it will have less impact given that the number of properties with selling prices higher than IDR30 billion in Jakarta is less than 1%;
- Tax incentives: the Indonesian Real Estate Developer Association (REI) has proposed some tax incentives to the government, including a reduction in sales tax (VAT) from 10% to 5%, transfer tax (BPHTB) from 2.5% to 1% and rental income tax (PPH) from 10% to 5% for the next 12 to 18 months. We are of the view that this stimulus will have significant impact to boost demand since the property price could be reduced by more than 12.5%.

Ultimately, we believe the proposed regulation will somewhat boost positive sentiment for the property sector but unfortunately, the timing of those proposed measures is yet unclear. However, the impact to the market will depend on how well the stimulus is being implemented on the ground.

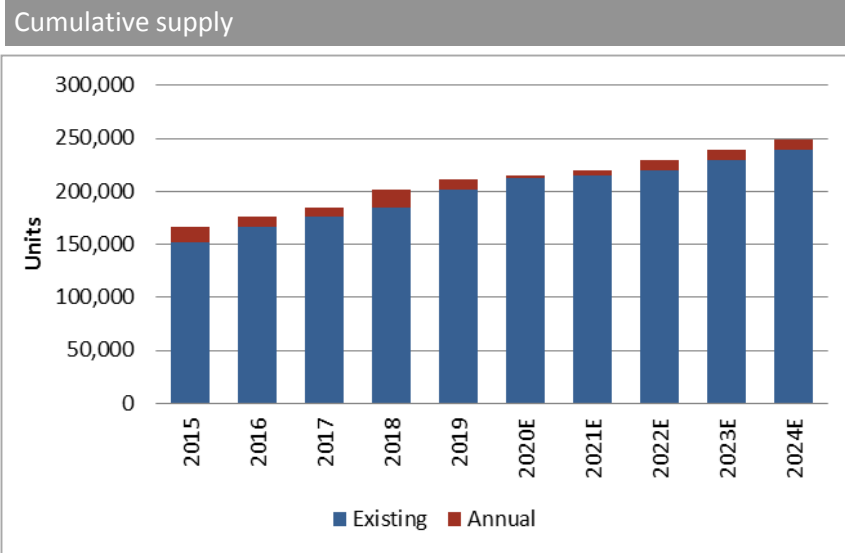
Third party funds in Indonesia



Source: OJK

## FINISHING THE CURRENT PROJECTS IS THE MAIN FOCUS AT THE MOMENT

After three consecutive quarters, Permata Hijau Suites, located in South Jakarta, was the first project handed over in 2020. The addition of 649 units coming from this project brings cumulative strata title apartment supply in Jakarta to 212,593 units.



Source: Colliers International

In the meantime, no new projects were introduced during Q3 2020. It was also found that some developers decided to halt some new projects due to increasing impediments during the pandemic, such as limitations on construction progress and unsatisfactory sales performance. Having said that, developers have opted to focus on either finishing their current under-construction projects or selling their current unit stocks.

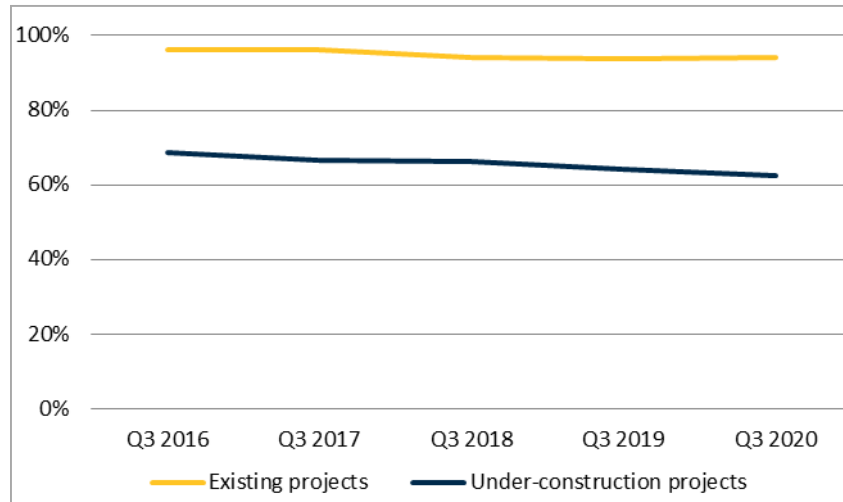
Furthermore, we predict there will be 3,034 units in total that can potentially be handed over in 2020, about 77% lower than our prediction at the end of 2019. In 2021, projected number of units will also be limited to only 4,838 while the remaining 28,602 units will be delivered to the market between 2022 and 2024.

## THE OFFLINE CHANNELS COULD BE ENACTED BUT THE DEMAND IS NOT LEVERED YET

As the COVID-19 pandemic has no signs of ending soon, sales performance of apartments in Jakarta remains under pressure. Only 168 units have been sold during the quarter, bringing total sales until 2020 YTD (September) to 1,382 units. Absorption rate thus remains stagnant at 87.7% (+0.05% QoQ or +0.17% YoY). Despite the relaxation of PSBB (large-scale social limitation) regulation during Q3 2020, potential buyers are still reluctant to do any transactions since the conditions remain uncertain. Moreover, the currently sluggish sales have forced developers to cut their marketing sales target by an average of 39% lower from their initial target for 2020.

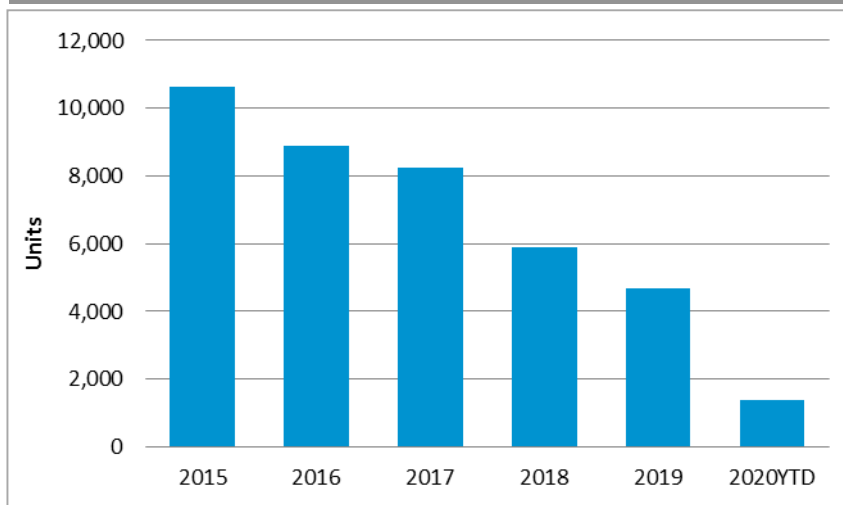
During Q3 2020, developers made the best use of offline channels under the relaxed PSBB regulation by opening marketing galleries and show units. Quite a few open house events were seen during weekends, while some projects have started to participate in some offline exhibitions. In the meantime, they were also reassessing their current strategies; for instance, several projects decided to utilise more channels (not having only a sole agent or relying mainly on in-house agents; instead, they let more external agents have sales cooperation with them). Also, there is a project that increases sales commission for agents from 2% to 4.5%.

## Take-up rates



Source: Colliers International

## Apartment demands



Source: Colliers International

In September, the regional government of Jakarta is set to re-impose PSBB again since the daily number of COVID-19 cases has increased dramatically. As such, we expect offline sales activities will be disturbed again since marketing galleries and show units have to be closed partially. Additionally, Oxford Economics predicts Indonesia will fall into recession as economic growth will retract by -2.7% by the end of 2020. Consequently, we predict demand will continue to remain dull until the end of this year.

## MORE DISCOUNTS ARE OFFERED

The continuing low absorption has made it difficult for most developers to adjust price. Consequently, the average asking price of apartments in Jakarta stood still at IDR34.96 million (+0.03% QOQ or +0.88% YOY).

## Average apartment asking prices (in IDR/sq m) in different regions

	Q3 2019	Q2 2020	Q3 2020	QOQ	YOY
CBD	52,238,386	52,271,062	52,318,687	0.09%	0.15%
South Jakarta	38,844,375	39,266,783	39,266,783	0.00%	1.09%
Non-prime Area	26,302,847	26,597,606	26,597,606	0.00%	1.12%

Source: Colliers International

Similar to the previous quarter, developers are still flexible with payment terms. In addition, besides retaining their asking prices, many projects have decided to give more discounts, varying from 2% to 20% and are still negotiable with additional under-table discounts. Likewise, many secondary units are offered at a discounted price. In comparison, prior to the pandemic, the offering prices of secondary units dropped by 2% to 10%. It is actually a buyers' market because they have more choices and will gain more advantages from the current sluggish market.

Our prediction on next quarter's asking price will be the same as this quarter. We still have to wait until the end of the pandemic to see the recovery.

## SERVICED APARTMENT MARKET

### Supply

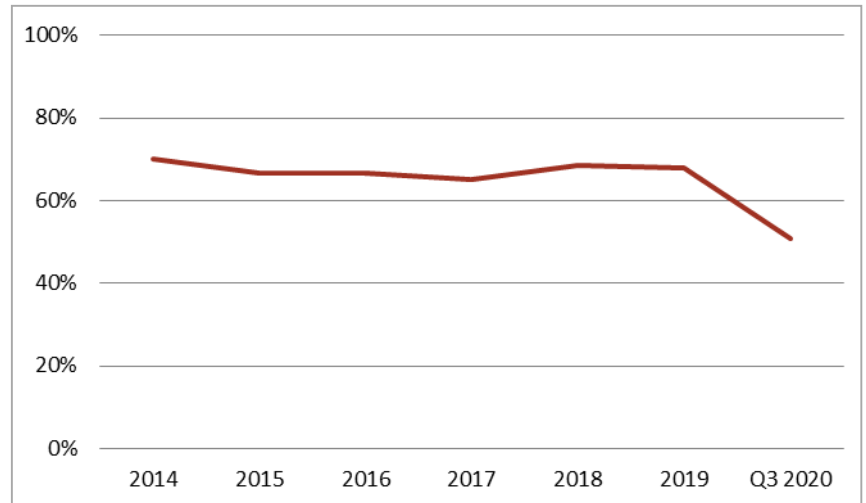
Two serviced apartments were completed in this quarter including Oakwood Residence Pantai Indah Kapuk, located in North Jakarta and Intercontinental Residence, located in Pondok Indah area, South Jakarta. As of Q3 2020, cumulative supply of serviced apartments in Jakarta reached 6,045 units. On the other hand, there is one newly announced serviced residence, Le Meridien Jakarta in Jl. Jenderal Sudirman, which is comprised of 318 units. Going forward, two Somerset projects – an Ascott brand – are expected to open at the end of 2020 in South Jakarta and the CBD area, respectively, for a total of 324 units. Further, Jakarta is anticipating another 1,713 units from nine serviced apartment projects within the next three years.

### Occupancy and Rental Rates

Overall, occupancy of serviced apartments in Jakarta increased by 1.6% from the previous period since the easing of movement restrictions during July until mid-September, which thus resulted in a jump in visitor numbers. Most of the tenants were short-stay renters from domestic staycation holidays since travel restrictions as well as refusal of entries of foreigners has prevented the return and arrival of expatriates. Further, Q4 2020 is expected to be challenging because it is the traditional low season and in addition, we will probably see fewer arrivals given the tough global economic condition.

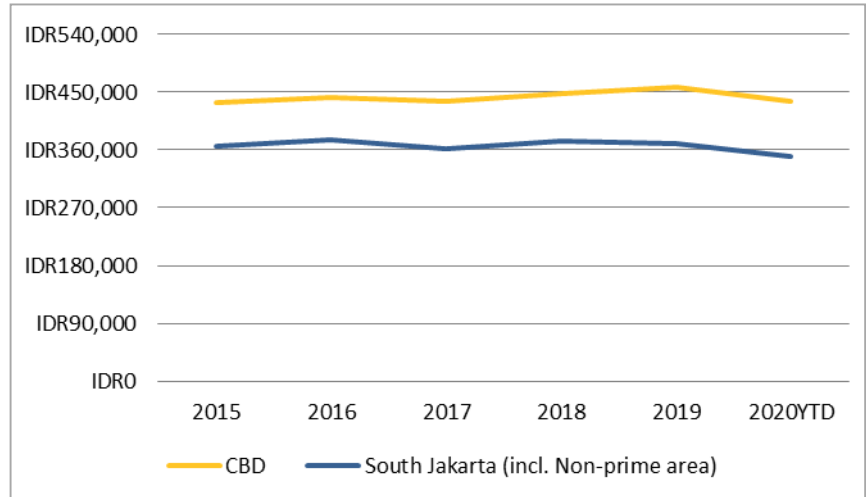
On the other hand, most serviced apartments still maintain unchanged rental rates while a few serviced apartments have decided to adjust the rental rate given the current tight market with occupancy rate way below their target. As of Q3 2020, the average rental rate is down by 1.7% from the previous quarter, to IDR435,000/sq m/month for apartment in the CBD and IDR350,000/sq m/month for apartment in South Jakarta. In the coming quarters, expat arrivals are likely to fall as the recession deepens and businesses potentially retrench. In addition, the significant additional supply in the next three years will weigh heavily on vacancy. Thus, our rental forecast has been adjusted from an increase of 1% to 2%, to a drop by 1% to 5% in the next year, and will gradually recover to a pre-outbreak level (+2% to 5%).

#### Occupancy



Source: Colliers International

#### Average Rental Rate



Source: Colliers International

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