













THE MARKET RECOVERY SIGN HAS BEEN APPEARING

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Summary & Recommendations

A key defining event of 2020 was the COVID-19 outbreak. The infamous "circuit breaker" measures affected the apartment market hugely, as the marketing galleries were shut, physical viewings were disallowed and construction works (and hence uncompleted projects) were delayed. This year (2021) is likely to remain a buyer's market and we look ahead with cautious optimism. Apartment demand is likely to remain somewhat the same in 2021 and also the prices are expected to be relatively stable. Further, amid the economic uncertainties, seller and developers will take a sensible approach and price in accord with the market.

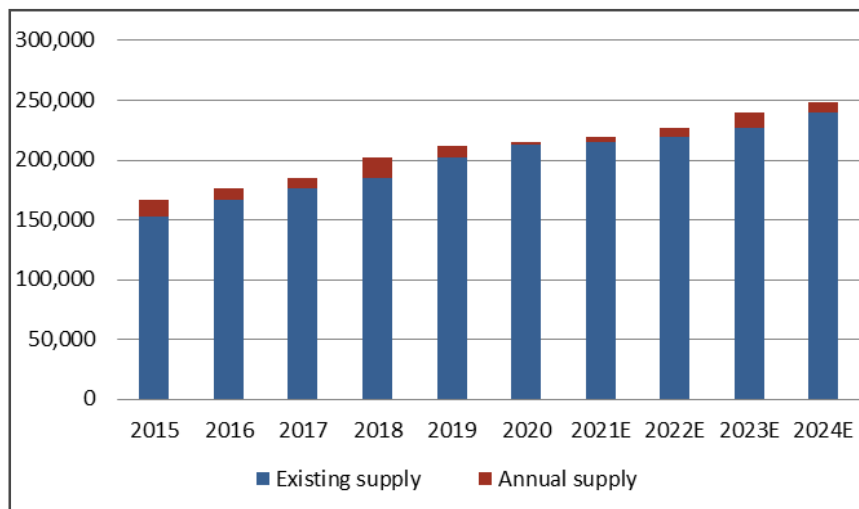
	Q4 2020	Full Year 2020	2020-24 Annual Average
 Demand <p>> There has been some improvement in sales. However, there is one new project in the market with a lower absorption rate, and, as a result, the overall absorption rate fell slightly by 0.5% to 87.2%. We hope the situation improves in the next year.</p>	 87.2%	 87.2%	 87-89%
 Supply <p>> Only three projects with 2,049 units in total were completed in Q4 2020. However, there will be more completion in the future and thus the average supply in 2021-2024 will surge to 8,312 units per annum.</p>	 2,049 unit	 2,698 unit	 8,312 unit
	QOQ / End Q4	YOY / End 2020	Annual Average Growth 2020-24 / End 2024
 Price <p>> Almost all projects decided to not increase their asking prices. Thus, the average asking prices remains the same as 3Q 2020. We hope to see some improvement in the next year.</p>	 IDR34.96mio	 0.47% IDR34.96mio	 5% IDR40.9mio (end 2024)

Source: Colliers International
 Note: USD1 to IDR14,105 at the end of Q4 2020. 1 sq m = 10.76 sq ft

MORE PROJECT COMPLETIONS IN THIS QUARTER

Three projects were completed this quarter, namely Arandra Residence (first tower), Sedayu City (first tower), and Newton 1 at Ciputra World 2, with 2,049 units. Thus, in 2020, only four projects were completed, and the total new supply was 2,698 units, 72.4% less than the total new supply in 2019, which was 9,769 units. In total, there are 215,291 completed apartment units in Jakarta.

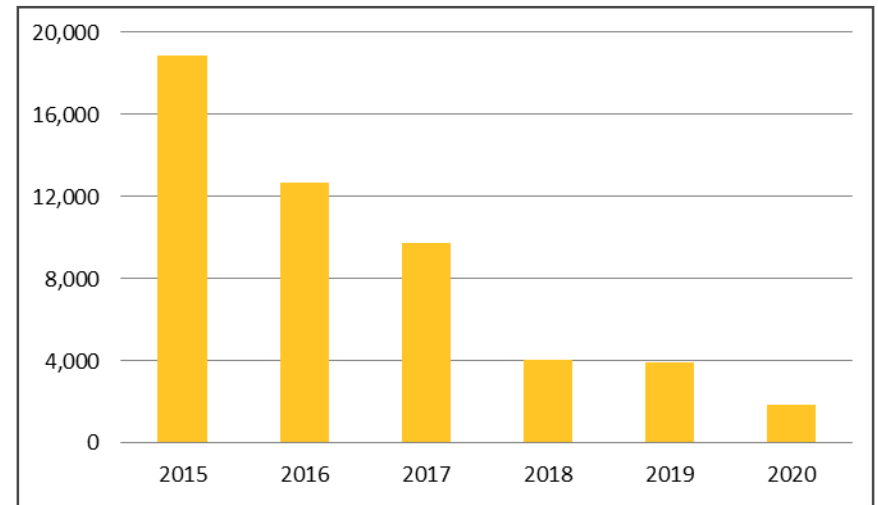
Cumulative supply



Source: Colliers International

For three consecutive quarters in 2020, no new projects were introduced. We note that developers scaled back their new launches in 2020 as a result of the COVID-19 pandemic. Meanwhile, for 2021, we have yet to get clarity from developers on new launches, or the re-launch of projects, as most of them are still working out their strategies. Further, as depicted in the graph above, we predict some build-up in annual supply from 2022 to 2024, as most projects are targeted for completion in that period.

New introduces/launches project



Source: Colliers International

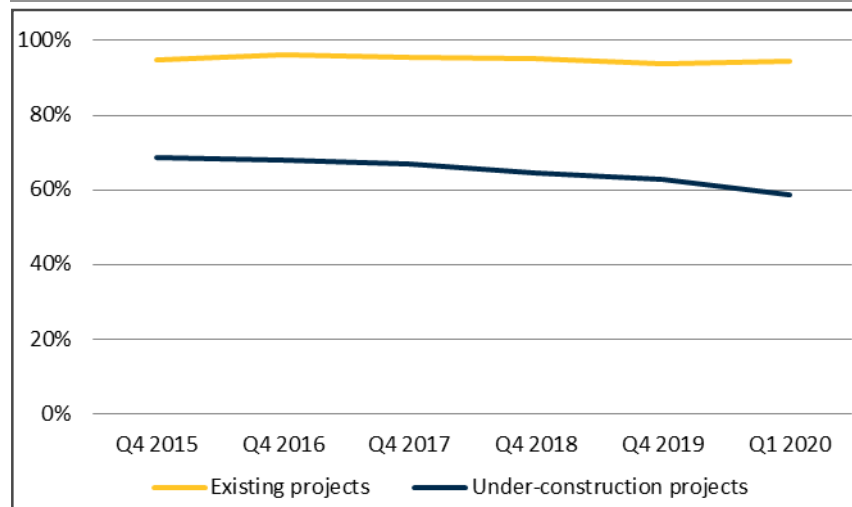
In 2021, we hope to see a better situation than in 2020. We assume more units could be completed than in year 2020, although unit totals are below average compared to previous years. In addition, developers continue turning to digital marketing to sell their products. With buyers adopting a wait-and-see approach, developers are offering more attractive incentives and deals, such as more discounts, cash-backs, furnishing packages, freebies and zero booking fees, to boost sales. Moreover, latent demand following large-scale social restrictions (PSBB) in Jakarta has yet to manifest, as the sudden large-scale implementation of remote work and e-learning is having an impact on living space and location choices. We think it is too early to assume that residential demand is undergoing a paradigm shift, as people seem to prefer the urban lifestyle that only Jakarta can offer.

SALES PERFORMANCE RECOVERY STARTING TO APPEAR

In this quarter, one project in East Jakarta was officially launched and made available in the market. Since it has just begun selling, the absorption rate is relatively low at 10%. Consequently, the average absorption rate for under-construction projects plummeted to 58.7%, 3.6% less than in the previous quarter, or -4% YOY. Also, the average absorption rate of apartments in Jakarta dropped to 87.2% (-0.5% QOQ, or 0.0% YOY).

Only 1,927 units were sold in 2020, less than half the sales in 2019, making it the lowest level in the past six years. Nevertheless, we observed some improvement in Q4 2020, as sales reached 545 units, much better than Q2 and Q3 2020, with just around 100 units sold in each of those quarters. This indicates the apartment market in Jakarta is starting to recover.

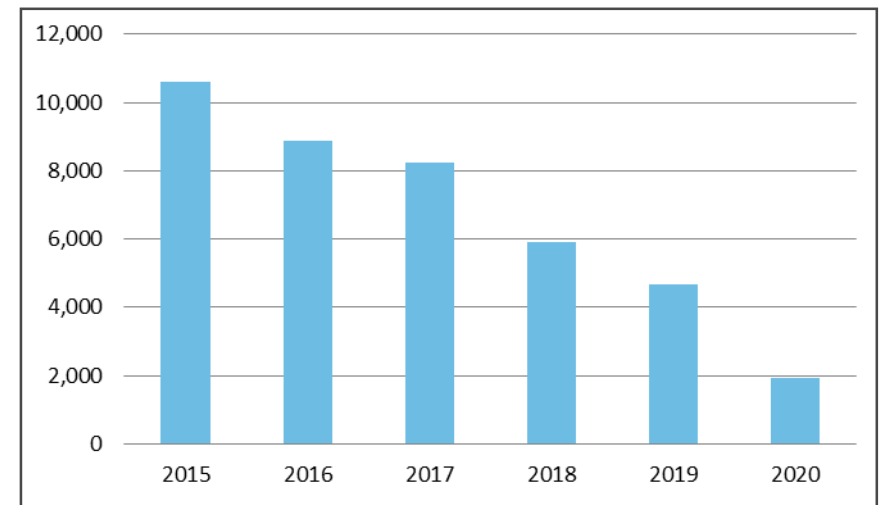
Take-up rates



Source: Colliers International

However, the improvement has not occurred across the board, but mostly in middle-upper class projects and lower-priced offerings, as buyers look for units priced below IDR1.5 billion. Also, studios are the most favoured since they are easier to rent. Considering location, buyers prefer projects that are accessible by public transport. Also, the reputation of developers and construction progress (the projects should be either completed or almost completed already) are factors that are important to them.

Apartment demands



Source: Colliers International

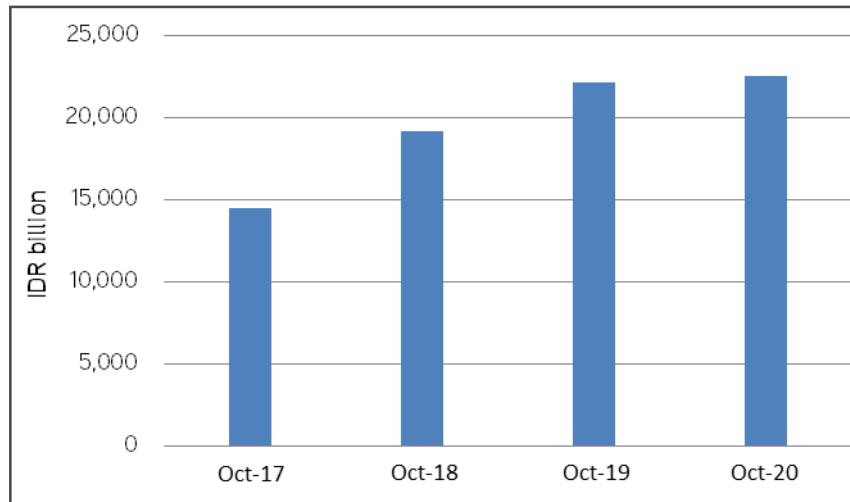
Moving into 2021, we do not foresee apartment sales improving significantly. The COVID-19 vaccine will be a game changer for Indonesia, which has been struggling to flatten the pandemic curve. An effective vaccine will help restore domestic mobility and revive the economy. In addition, the Omnibus Law will be a catalyst for private and foreign investment, which in turn boosts job creation and improves the business climate in general.

Despite hopes of vaccine, we are of the view that Indonesia's economic recovery in 2021 may not be full throttle, and is dependent on factors such as:

1. Full availability of vaccines;
2. Mobility returns to pre-pandemic level;
3. Revival of spending.

We are of the view that the World Bank's GDP forecast of 4.4% is not sufficient to create the "feel-good" factor for investors to invest in property. Further, we are of the view that the banks will continue to be more stringent with mortgage loan approvals in 2021, as long as unemployment data still points to a murky outlook. Further, data from the Indonesia Financial Services Authority (OJK) has highlighted that the mortgage loan rate for apartments in October 2020 had declined markedly, to 1.7% (YOY), compared to 15.4% for the same period in 2019.

Mortgage of apartment



Source: Indonesian Financial Service Authority (OJK)

Moving forward, we remain cautiously optimistic on the overall performance of the apartment market, as the various initiatives announced by the government are expected to help spur economic activities. Nonetheless, the apartment market will not return to the pre-pandemic normal just yet. To conclude, we predict the take-up rate in 2021 will increase slightly, by 0.5-1%, and by 1-2% to 2024.

NO PRICE REVISION THIS QUARTER, BUT WILL HAPPEN IN 2021

Despite the start to sales performance recovery, developers have persisted in not revising their asking prices. As a result, there has been no change in the average asking price, compared to the previous quarter, leaving it standing at IDR34.96 million (0.00% QOQ, or 0.47% YOY). This is the first time that the selling price of almost all projects has not increased.

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

	Q4 2019	Q3 2020	Q4 2020	QOQ	YOY
CBD	52,249,863	52,318,687	52,318,687	0.00%	0.13%
South Jakarta	39,121,166	39,266,783	39,266,783	0.00%	0.37%
Non-prime Area	26,362,511	26,597,606	26,597,606	0.00%	0.89%

Source: Colliers International

Developers have been reluctant to increase their asking prices because they think it is still too early to do so. They prefer to make more sales to achieve their sales target. Besides keeping their current prices, they have extended their promotional offers to attract more potential buyers.

However, we have found that many developers intend increasing their asking prices in 2021. They argue that it is necessary to do so since they have held to the same price for too long already, while construction progress has been ongoing. Therefore, we predict the average asking price will increase by 1-2% in 2021.

SERVICED APARTMENT MARKET

Supply

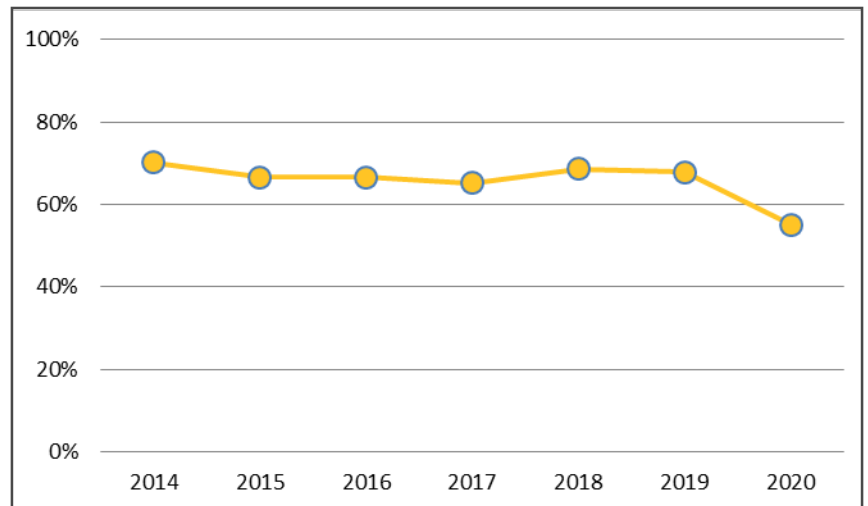
No new projects were completed in the quarter, thus the cumulative supply of serviced apartments stood at 6,045 units. Going forward, near-term supply is expected to be reduced, or pushed back, due to delays in construction activities as a result of the COVID-19 outbreak. Further, Jakarta is anticipating another 1,537 units from eight serviced apartment projects within the next three years.

Occupancy and Rental Rates

With the resumption of leasing activity following the relaxation of the large-scale social restrictions (PSBB), the average occupancy rate in Q4 2020 rose 4.4ppts QOQ to 57.2%. Notably, the primary source of leasing demand was local residents renting serviced apartments for staycations during the weekend. Moreover, based on information on the ground, there was a 50% increase in domestic tenants compared to the previous year, mainly due to from weekend family staycations.

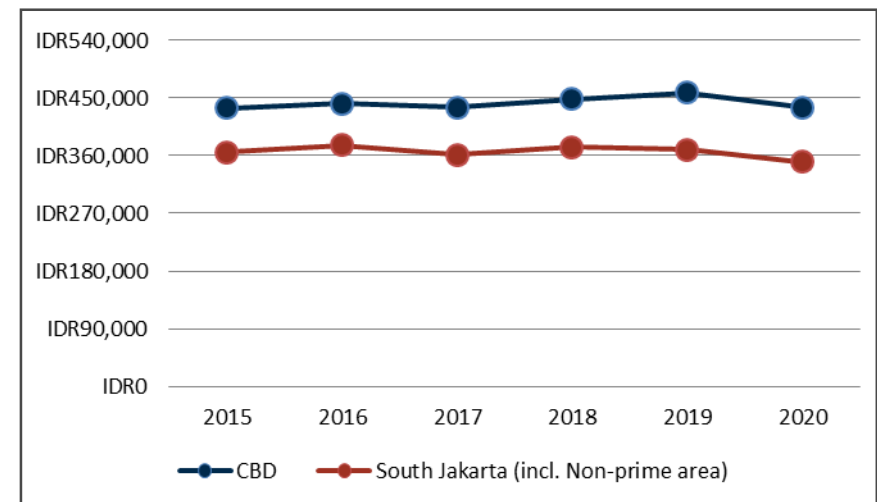
Looking forward, rising infection levels due to COVID-19 mean that travel restrictions will be maintained at a high level. Therefore, it is expected leasing demand for serviced apartments from expatriates will remain weak in the near term, and, in turn, this will put downward pressure on rents, particularly for large units, e.g. two and three-bedroom apartments. On the other hand, the anticipated shift in demand to affordable smaller units should ensure the rental rate for this type of unit remains resilient. With unemployment likely to rise in the face of a global economic recession, overall rental growth is likely to be curbed in the short to medium term, and occupancy is likely to soften. We expect downside pressure on rents to continue over H2 2021. However, once more countries have access to various vaccines, foreign worker traffic should improve.

Occupancy



Source: Colliers International

Average Rental Rate



Source: Colliers International

Expatriates Housing Estate H2 2020

We saw no signs of an end to the pandemic in Q4 2020. As a result, the economic situation remains depressed. In addition, we have not seen any significant improvement in the expatriate housing market in Jakarta, although the government has started to open the borders and issue new working visas and permits for expatriates.

Some company sectors have not been really affected by the pandemic, such as FMCGs, pharmacies, banking and insurance. However, most companies are still in line with previous decisions to cut their budgets during this difficult time. Many projects and events are on hold until further notice, or have been adjusted to a smaller scale. Consequently, companies have decided to continue to postpone the arrival, or reduce the number, of incoming expatriates.

The number of expatriates in Indonesia is still lower than before the pandemic, and the lower demand for expatriate housing has persisted. As a result, many landlords have struggled to find new tenants after previous tenants have left their properties. Thus, landlords have become more flexible in terms of payment methods, amenities and rental prices to attract potential tenants. Some remaining expatriates have taken this opportunity to choose cheaper or better property options.

Although landlords have become more flexible, they cannot negotiate period terms, as they need to consider the cost of maintenance. On the other hand, companies prefer flexible period terms due to the uncertain situation. To solve this, some companies have used serviced apartments as an alternative, since they are available for any term. Also, in the current situation, many serviced apartments are subject to further negotiations, as well.

To conclude, in 2020 the market has remained a tenant's market. While some housing complexes have successfully managed to maintain their occupancy and rental rates, more housing complexes have experienced the opposite. However, we are more optimistic for 2021. As vaccines are distributed in 2021, we hope there will be more people movements, and more expatriates coming to Indonesia, with a resulting gradual market recovery.

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