

Thursday, 27 January 2022

Identifying Real Estate Opportunities in 2022

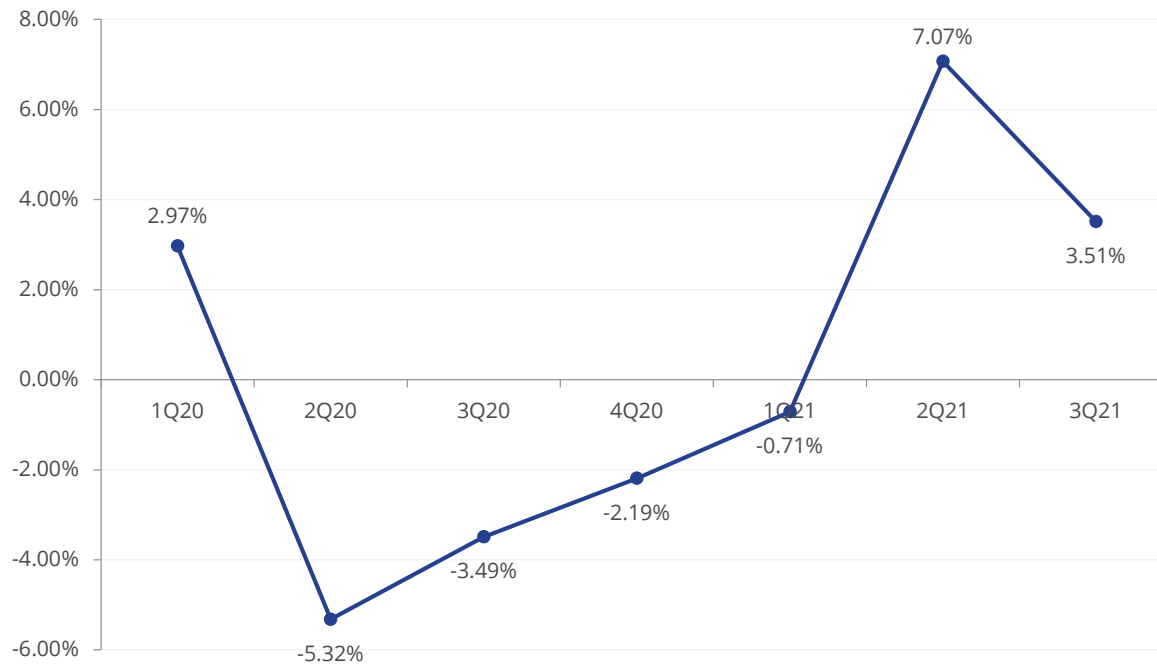


Michael D. Broomell
Managing Director



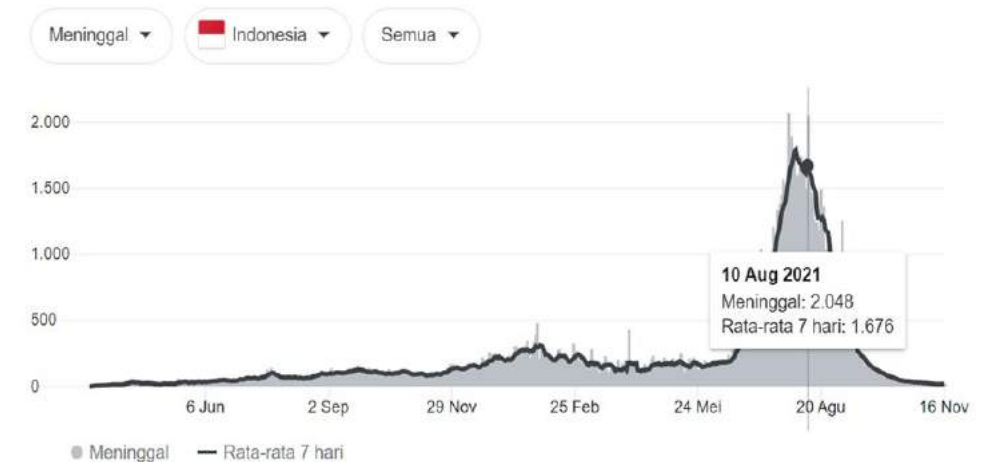
Investment Market

Economic Growth 2020 - 2021



Source: Badan Pusat Statistik (BPS) Indonesia

Daily mortality in 2021 due to Covid-19



Source: [JHU CSSE COVID-19 Data](#)

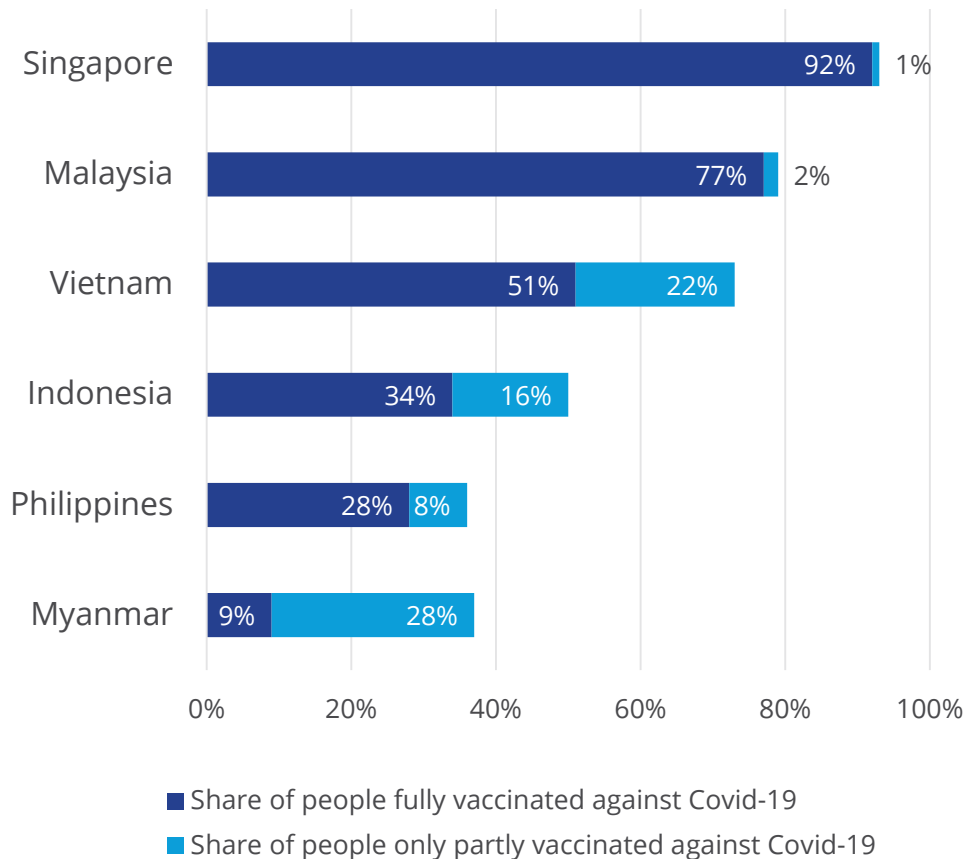
The impact of government efforts in fighting the Covid-19 pandemic have been apparent in the continuous improvement in Indonesian economic growth. A drop in growth in 3Q21 was due to the Covid-19 Delta variant, which delivered the hardest hit so far, during the period from end May to end August.

Economic Indicators



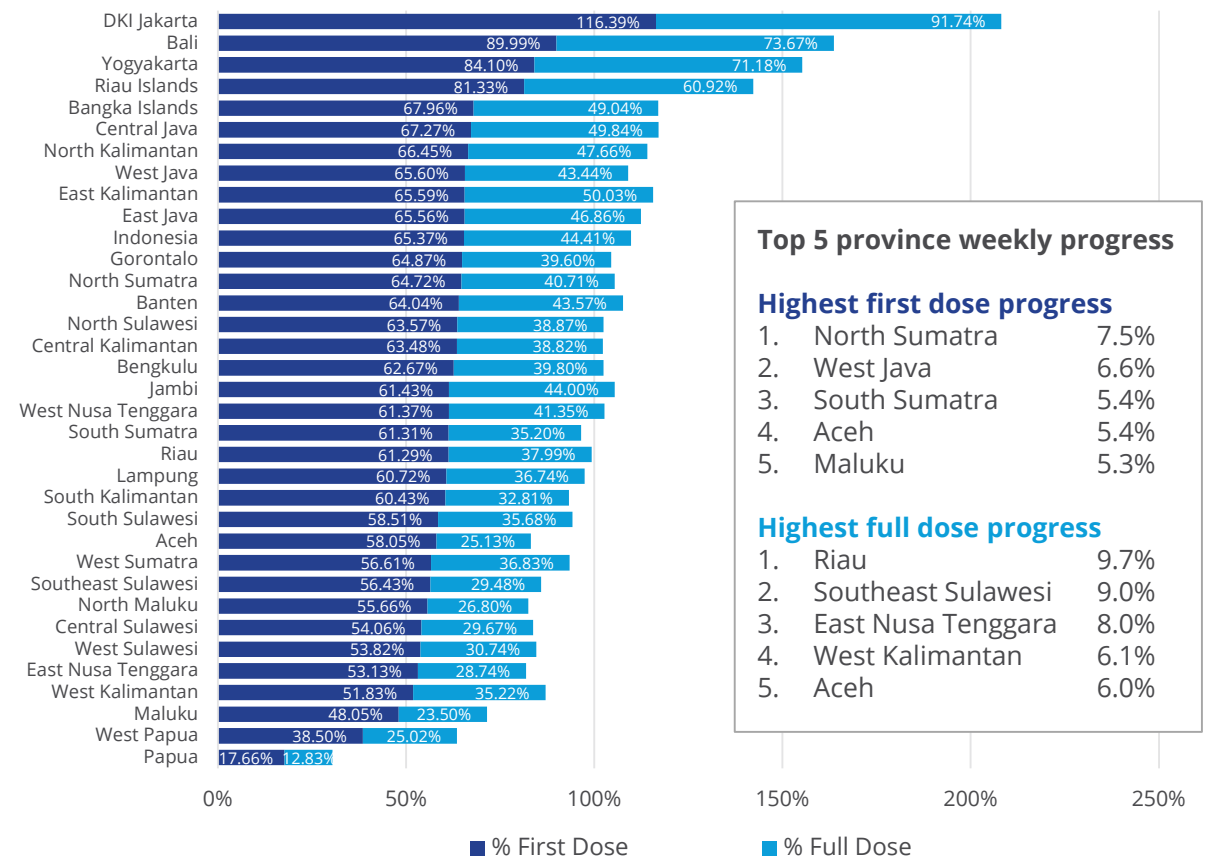
Vaccine Update

Share of people vaccinated against Covid-19 as of Nov 28, 2021



Source: Our World in Data

Vaccination by Province Population as of Jan 17, 2022



Top 5 province weekly progress

Highest first dose progress

1. North Sumatra 7.5%
2. West Java 6.6%
3. South Sumatra 5.4%
4. Aceh 5.4%
5. Maluku 5.3%

Highest full dose progress

1. Riau 9.7%
2. Southeast Sulawesi 9.0%
3. East Nusa Tenggara 8.0%
4. West Kalimantan 6.1%
5. Aceh 6.0%

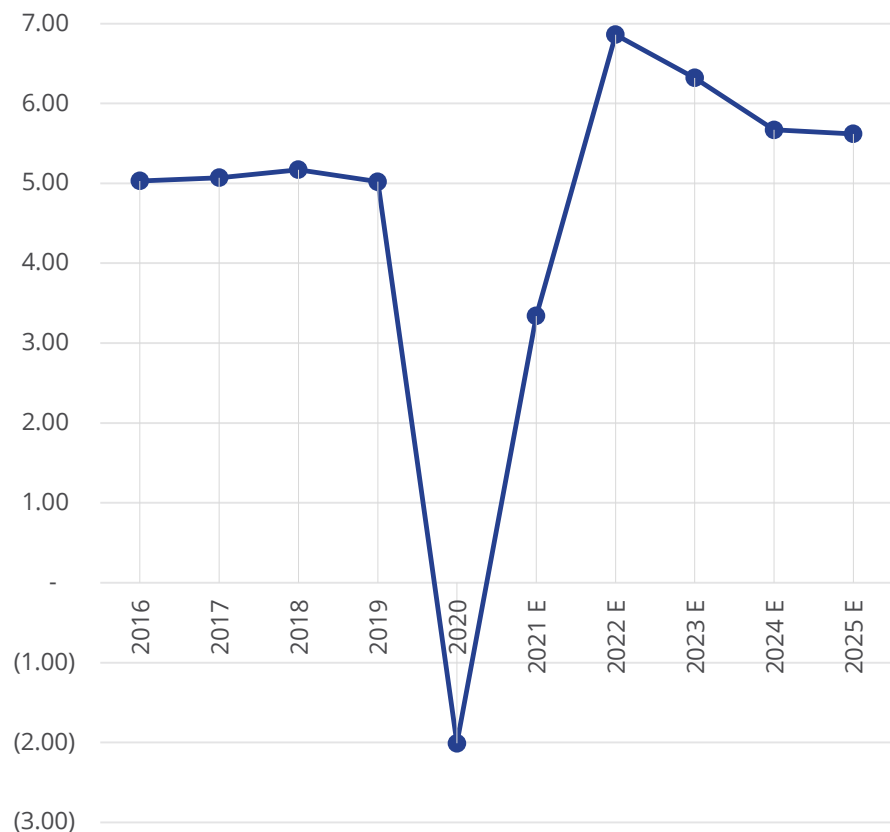
Source: Bahana

Economic Indicators

Economic Growth

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Indonesia



Country	2016	2017	2018	2019	2020	2021 E	2022 E	2023 E	2024 E	2025 E
Malaysia	4.41	5.56	5.09	4.74	(3.89)	3.64	5.68	6.77	5.45	4.68
Philippines	7.18	7	6.41	6.05	(5.67)	1.69	7.69	8.1	6.73	6.13
Singapore	2.73	4.51	4.28	1.41	(4.45)	5.05	4.05	3.46	3.07	3.03
Thailand	3.36	4.02	4.24	2.92	(4.82)	0.64	5.06	6.49	4.54	3.22
Vietnam	6.68	6.95	7.08	7.02	2.91	6.64	7.79	7.55	6.39	5.99
Myanmar	6.41	5.75	6.41	6.5	2.92	(9.87)	5.77	6.19	8.64	7.54
Indonesia	5.03	5.07	5.17	5.02	(2.01)	3.34	6.86	6.32	5.67	5.62

Source: Oxford Economics

What's Changing

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Property investment activity is rising but not to the same level as other gateway cities in Asia Pacific.



Office property is challenged as the standard go-to core product globally as values are depressed and occupiers have not fully sorted their new normal.



More capital is seeking investment in logistics and landed housing.



Expected opportunities to acquire discounted hospitality did not really materialize, so lots of dry powder but no home for it.

Strategies

Colliers



Identify partnership opportunities with capital partners to monetize significant parts of holdings and have capex funds for necessary upgrades, working capital, etc.



Buy strategic land sites for future development at attractive prices.

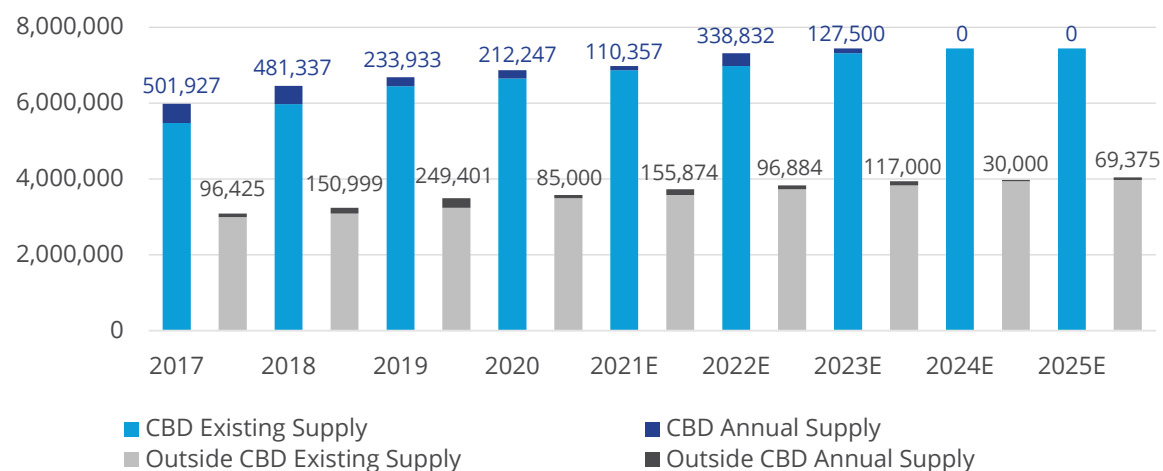


Find partner opportunities with experienced township developers building largely self-liquidating landed products and limited supporting retail and commercial uses.

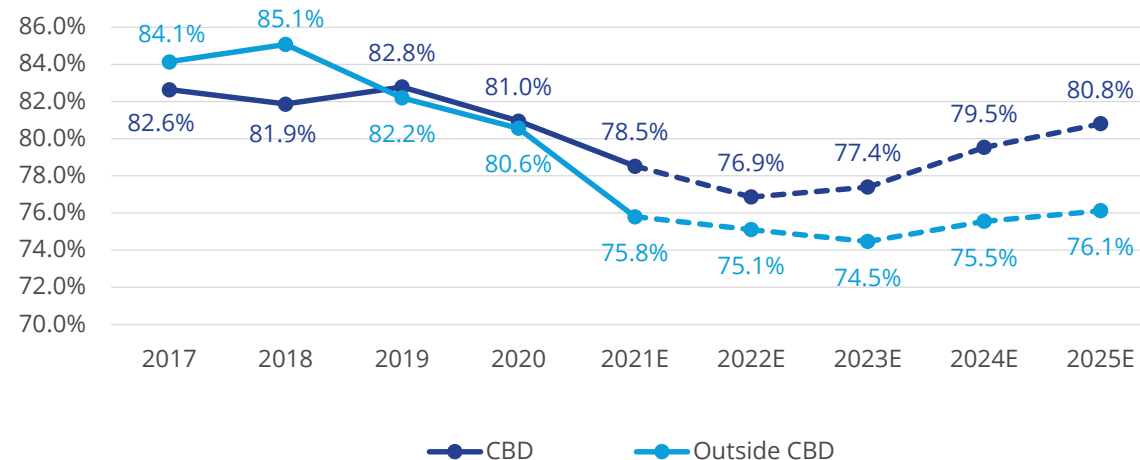


Office Market

Cumulative Supply



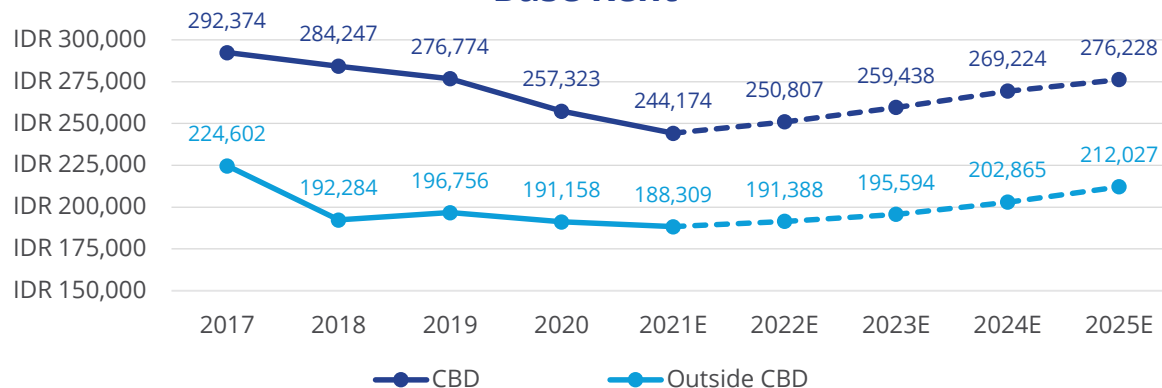
Occupancy



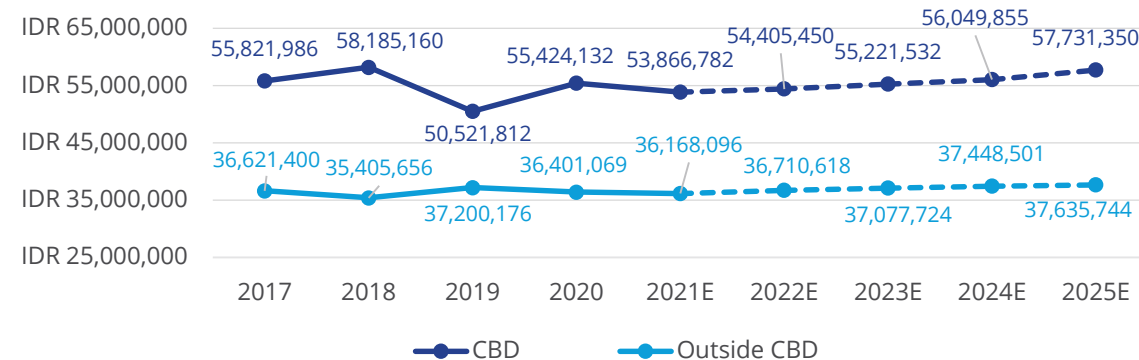
- Construction activity slowed down during pandemic, highlighted by delay in completion.
- Today, quite a few developer are anticipating the right momentum before reactivating new construction.
- Future buildings that are currently under-planning are likely to experience delay in completion.
- We expect to see supply-demand equilibrium starting in 2024 onward.

- Occupancy continued to drop during pandemic.
- The absorption level in the CBD was a historic low in 2021, i.e. below 80%, down 4% compared to before pandemic.
- Similar trend occurred in outside the CBD, a drop of 5% in occupancy since 2019.

Base Rent



Selling Price



- Asking base rent in the CBD now is IDR249,537, but we expect to see a further drop by the end of 2021 or 12% decrease compared to 2019.
- The operation of future Premium-class buildings will lift the overall asking rental tariff in the CBD, however transacted rent will likely to see pressure from tenants given a huge vacant space in the market.
- Rent in the CBD will only grow below 2% annually, particularly in 2022 onward.
- The overall rent in outside the CBD similarly declined by 4% during the pandemic.
- The limited future supply over 2023 – 2024 will help stimulate rent to increase moderately going forward.

- Most landlords and units owners are still offering old price.
- But we hardly record any strata-title transaction activity during the pandemic.
- The addition of new strata-title building will be limited.
- Price will only grow moderately.

Companies have adapted to the pandemic conditions

Colliers

Occupiers Perspective



Contract or expand

- More and more companies have adapted their businesses according to current conditions and expand by either staying where they are or move to a new building
- Many companies generally have decided to reduce their occupied space by about 10 – 30% when renewing or restructuring their leases
- Many companies have decided to apply hybrid workplace models
- Many companies have had to redesign their current layouts to be more flexible and collaborative. There will be more “hot desking” than fixed desks

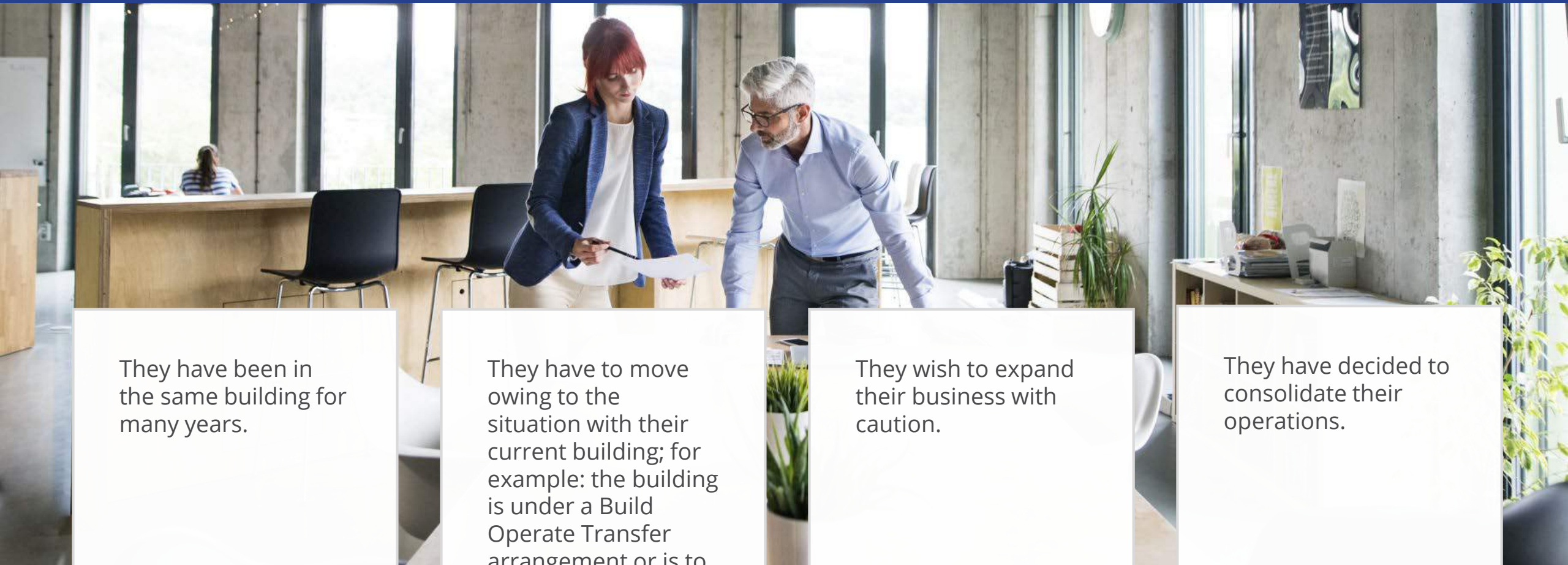


Renew or relocate

Companies generally no longer perceive relocation as big risk to their business, they have started to accept current pandemic conditions and decided to execute the relocate plan to a new building if the deal is right. They are taking advantage of the tenant’s market with competitive rents, and flexible landlords offering terms such as tenant fit-out allowances and others.

Reasons for companies to relocate during the pandemic

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They have been in the same building for many years.

They have to move owing to the situation with their current building; for example: the building is under a Build Operate Transfer arrangement or is to be demolished.

They wish to expand their business with caution.

They have decided to consolidate their operations.

Strategies and Opportunities for 2022

Landlords are advised to show flexibility and be accommodative to keep tenants wanting to extend their leases, as well as being more flexible to secure new leases.

Landlords should focus more on achieving high occupancy rates like 70-80%.

Flexibility may be offered by providing incentives such as:

- Rent free (“face rents” and “net effective” rents)
- Free parking
- Option to surrender
- Early termination option
- Fit-out allowance to be amortised over the lease term
- Option to renew with rental cap
- Sub-lease and assignment
- Holdover rights

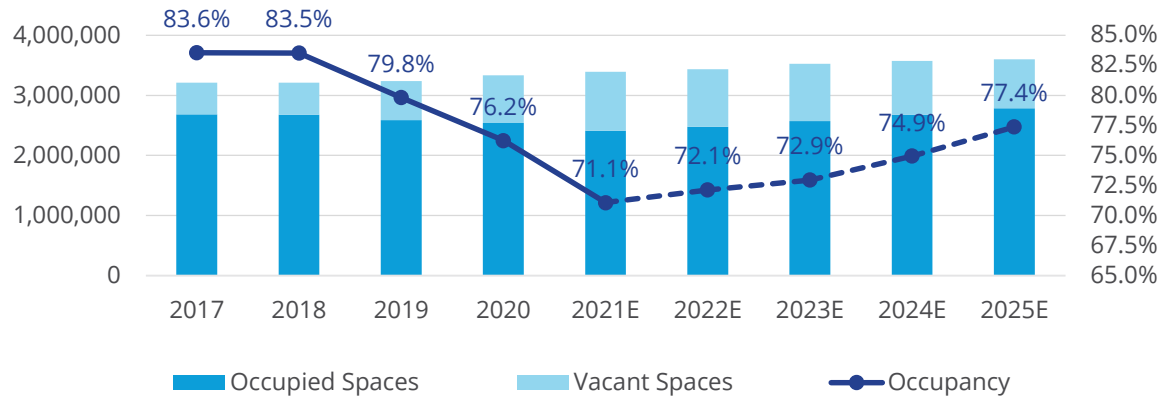
Landlords should allocate some areas for agile working spaces in their building. Flexible workplace strategy will become a requirement for many companies.

Landlords should support sustainability concept by applying a green building certification.

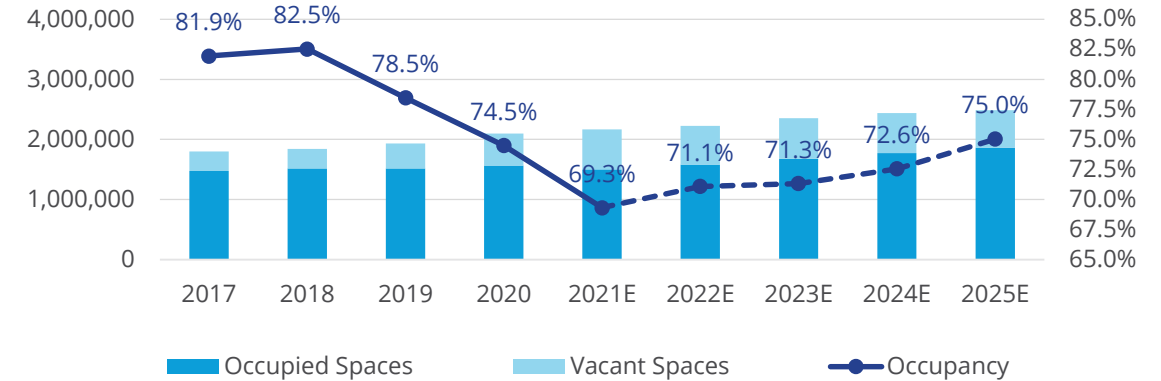


Retail Market

Jakarta Cumulative Supply & Occupancy

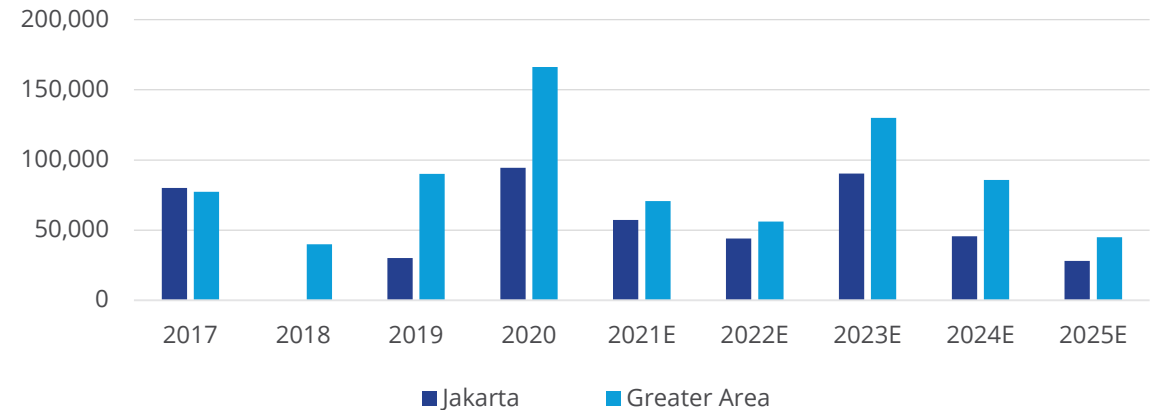


Greater Area Cumulative Supply & Occupancy

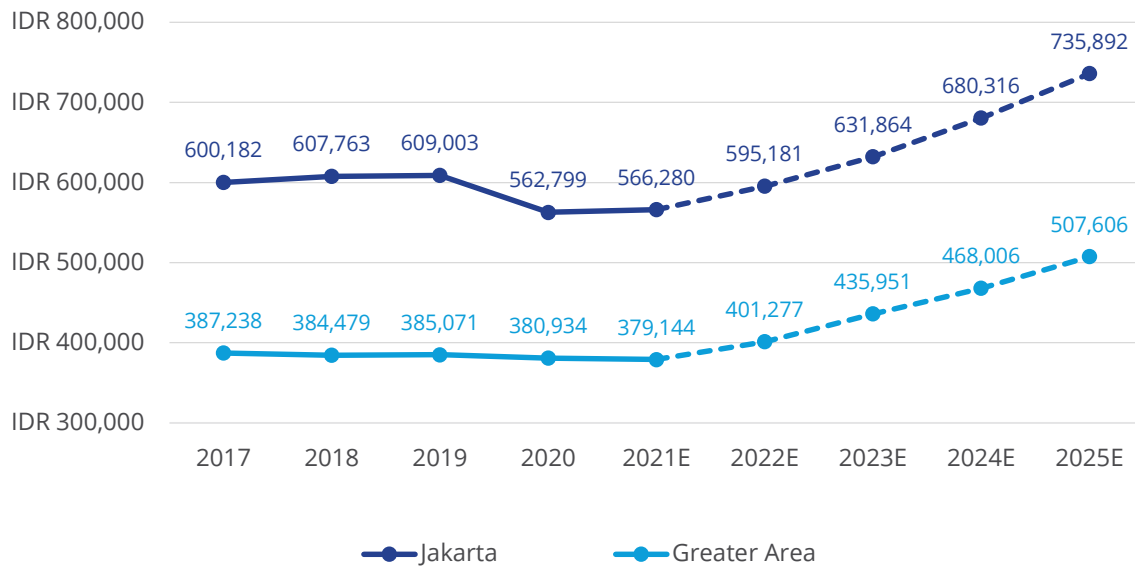


- At the end of 2021, Pondok Indah Mall 3 and AEON Mall Tanjung Barat.
- We anticipate 4 malls to operate within 2022-2025, adding around 200,000 sq m.
- Most of upcoming shopping centres in greater area of Jakarta are in the construction stage.
- The addition of new mall will push occupancy downward, particularly because of low commitment during grand opening of new malls.
- We anticipate an increase in visitor traffic, along with the loosening traffic limitation.

Annual Supply

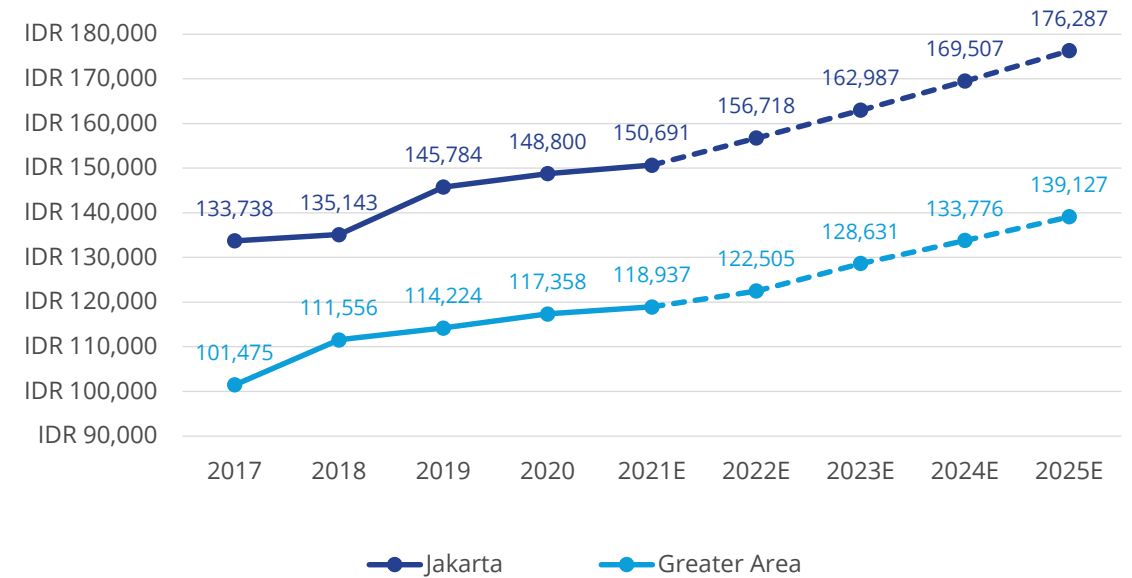


Average Rent



- Rent adjustment in 2021 was mainly triggered by the operation of Pondok Indah Mall 3 with rental tariff above market average.
- Mall visitors has gradually shown an upward trend despite still lower than in the normal time.

Service Charge



- Landlords generally maintain service charge tariff, but the overall adjustment is mainly due to the influx of newly operating Pondok Indah Mall 3.
- Rent and service adjustment are likely to increase moderately in 2022 provided that economic projection achieves the target.




Most rents and service charges have returned to normal levels, except for some segments such as entertainment and cinemas.

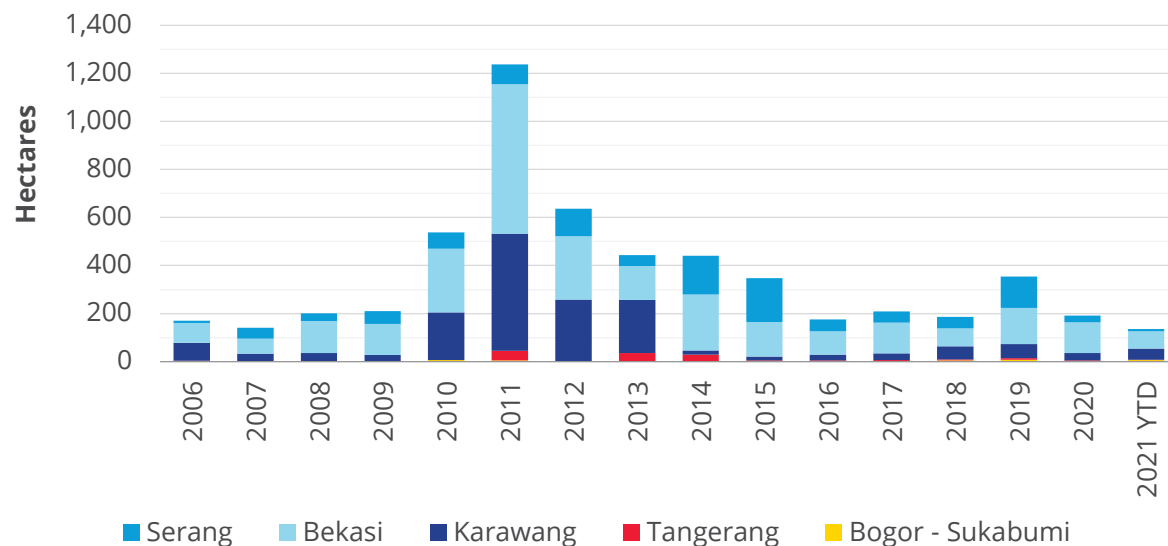
Landlords are still looking for replacement tenants in a soft market where retailers know they can get more favourable rental terms.

Retailers are getting more confident and are looking to expand again wanting to reap the benefits of the soft market. But they continue to be very selective in terms of the locations they take up.

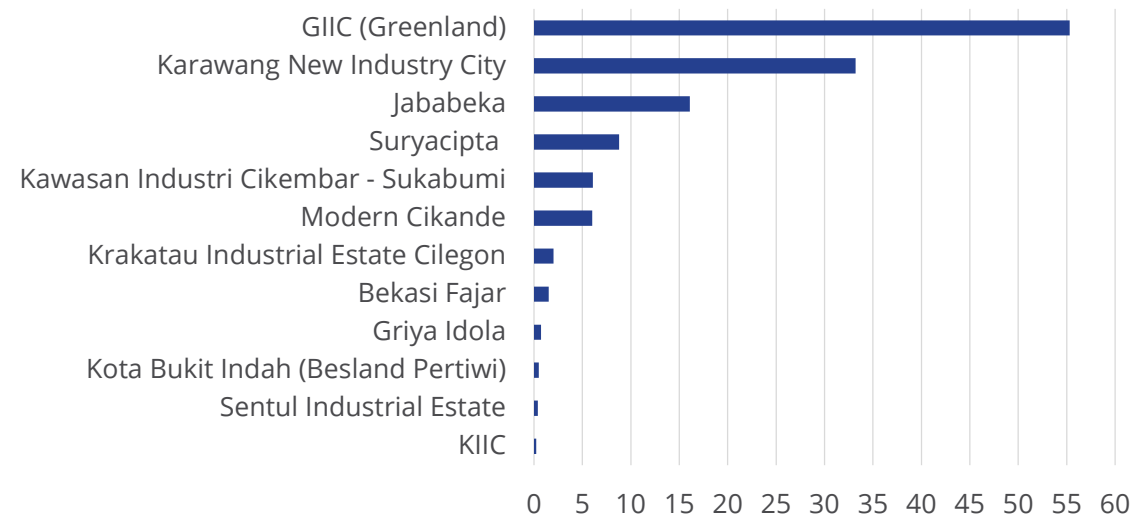
In the office sector, we still see retailers closing outlets, and it is still difficult for developers to find new tenants. F&B retailers, especially, are still very cautious because of the pandemic.

A large, light blue rectangular box containing the text "Industrial & Logistics Market" in a dark blue, sans-serif font. The background of the entire slide is a photograph of a modern industrial warehouse interior, showing a high ceiling with a complex network of steel beams, numerous long fluorescent light fixtures, and a central skylight with a curved glass structure.

Annual Land Absorption



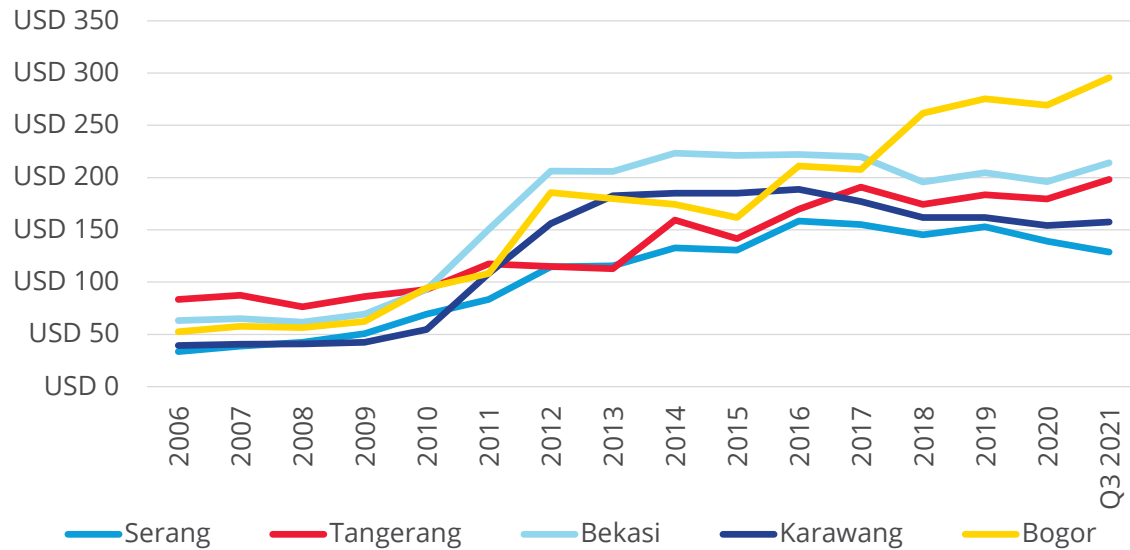
Land Absorption Along 2021 YTD



- Total transaction in Q3 was 52.7 hectare.
- Along Jan-Sept 2021 land transaction reached 134.86 hectare (70.5% of total sales in 2020).
- The largest sales in Q3 was from EV manufactures (Hyundai) for the battery module which occurred at KNIC.
- Data centre companies are very aggressive in expanding now and going forward.
- Industrial sector is expected to be first sector to recover in 2022. We anticipate demand in 2022 onward will be 25% higher than this year.

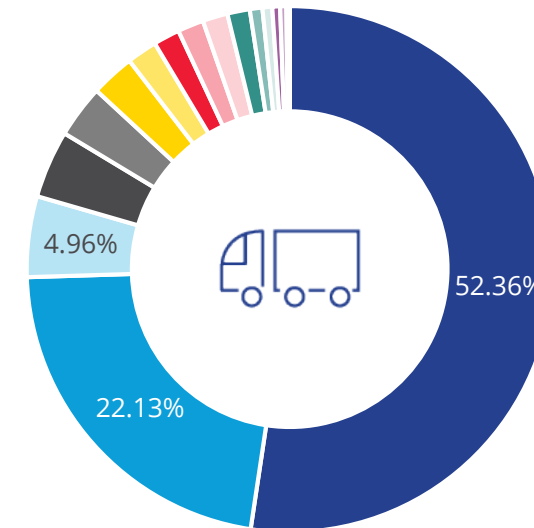
Land Price & Active Sectors (2021)

Industrial Land Price



- High-tech industry is very dominant.
- Automotive industry is back but more tech oriented like the EV.
- Data centre is quite expansive and will continue to expand in the future.
- Other active sectors includes logistics, petro-chemical, food, health, pharmacy and FMCG.

Active Sectors during 2021



- Automotive, 52.36%
- Data Centre, 22.13%
- Chemicals, 4.96%
- Packaging, 4.16%
- Construction/Engineering, 3.24%
- Logistics/Warehousing, 2.69%
- Medical/Health, 1.86%
- Building Material, 1.62%
- Others, 1.60%
- Textiles, 1.54%
- Developer, 1.38%
- Oil & Gas-related, 0.77%
- Pharmaceutical, 0.60%
- Piping/Valve, 0.48%
- Manufacturing, 0.38%
- Steel-related, 0.17%
- Electronics, 0.03%

Industrial

Warehouse, logistics, and fulfilment centres

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Traditional vs. Automation

- Increased demand for warehouse automation (shuttle racking)
- In the longer-term, automation will keep logistic costs stable

Express vs. Fulfillment

- Increased demand for fulfilment centres
- Changes as C to C becomes B to C

Target areas will have high populations and be close to Jakarta: areas such as the south of Jakarta, west of Jakarta, Tangerang and Bekasi.

Industrial

Industrial development supported by the government

Colliers

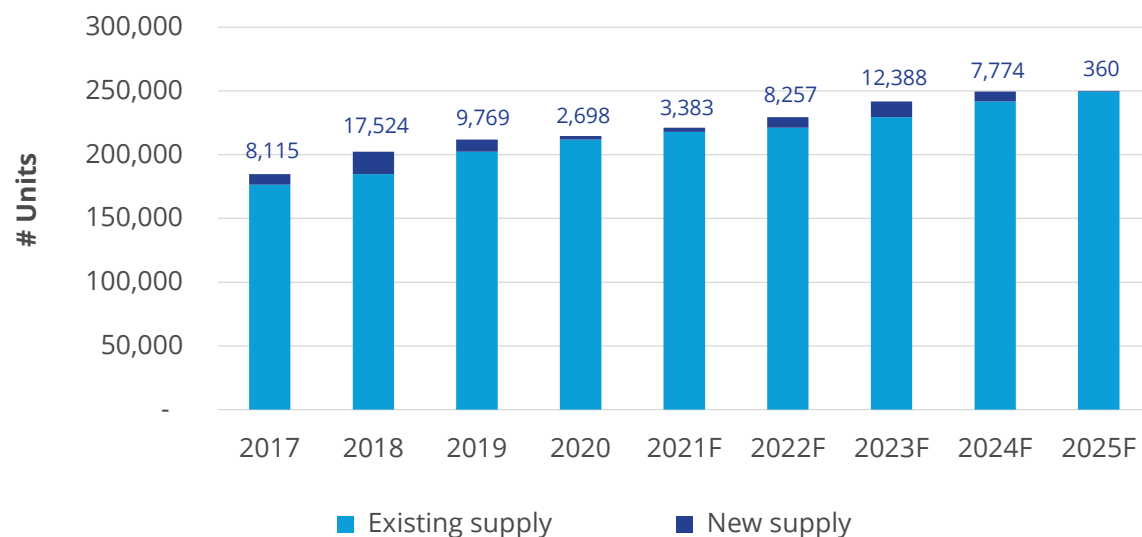


For some industrial estates that are supported by the government, there are advantages that can be an opportunity, too. The Terms & Conditions provided, especially in terms of price, can be very competitive. With the price offered, ownership can even be up to 80 years. Apart from that, another advantage is the special incentives which will be adjusted by BKPM based on the value of the investment.

The background of the slide is a photograph of a modern apartment building. The building features multiple levels with balconies that have dark metal railings. The architecture is clean and contemporary, with a focus on geometric lines and materials like metal and concrete. The lighting is bright, suggesting a sunny day.

Apartment & Expatriate Housing

Cumulative Supply: Strata-title Apartment



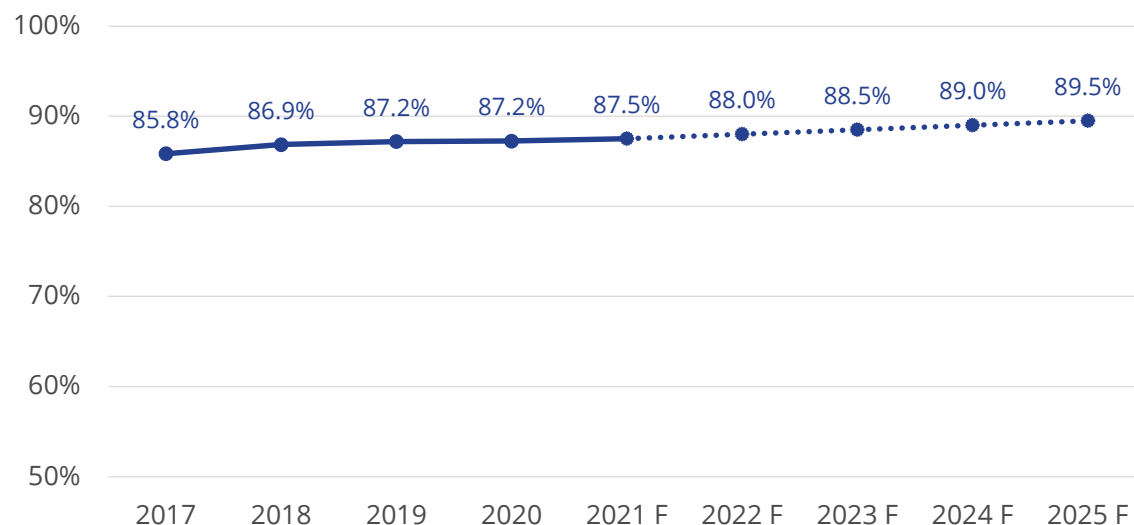
- No new project was introduced in 2022.
- We anticipate 3,383 new apartment units being completed in 2021.
- Total units projected to close 2021 will be 221,117 unit.
- In 2022 - 2025 annual supply is 7,195 units, lower than in 2014 - 2021 of 9,540 units per annum.

Cumulative Supply: Serviced Apartment



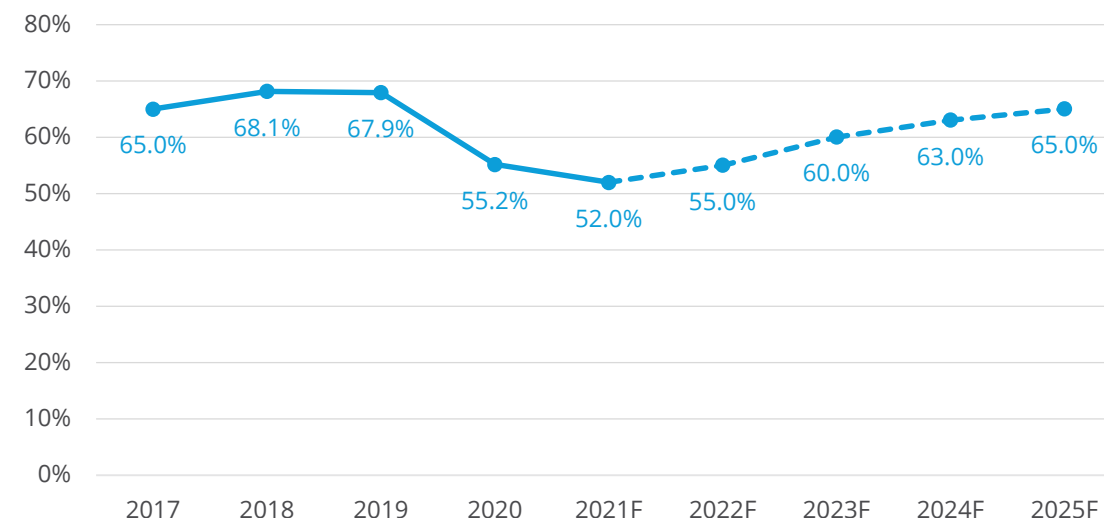
- In 2018 - 2021, additional new apartment for lease was 332 units per annum.
- Leased and serviced apartment will grow 4.1% CAGR along 2022 - 2025.

Take-up Rate



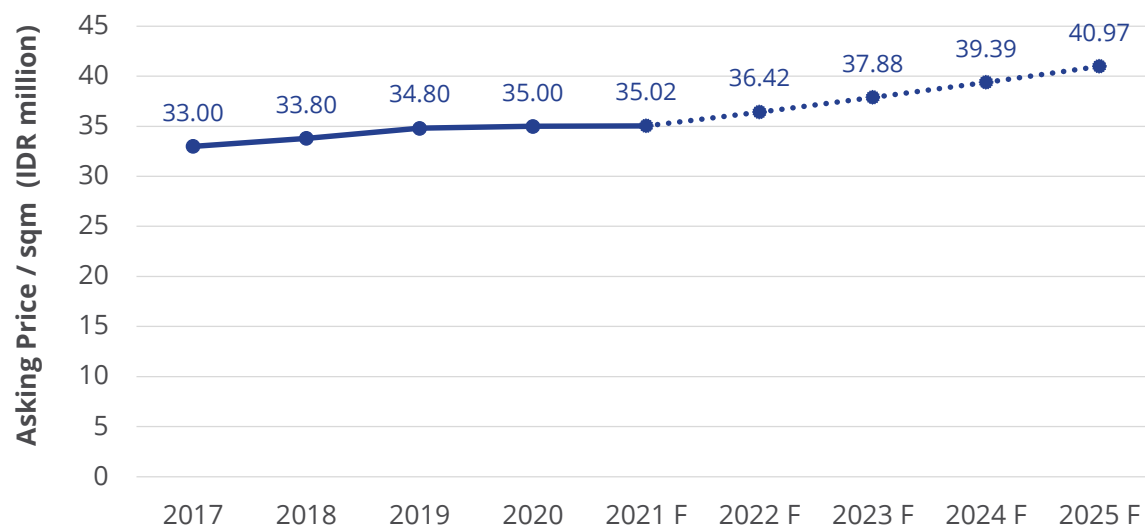
- We are anticipating for a better sales result by the end of 2021. This will help lift the absorption rate modestly compared to 2020.
- The average take-up rate in 2022- 2025 will be 88 - 89%.

Occupancy



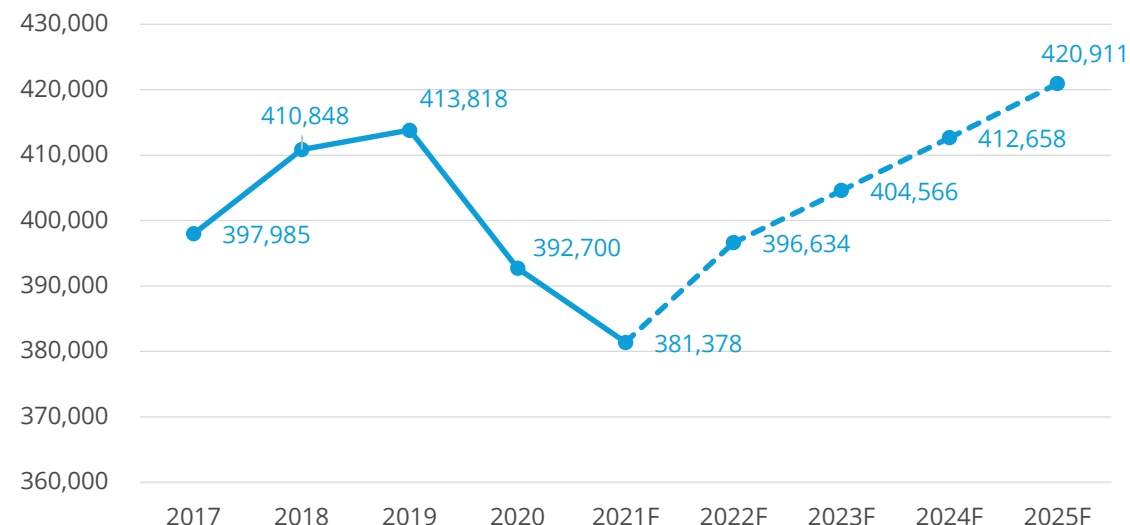
- Annual occupancy dropped 10-15% in 2020 - 2021 mainly due to Covid-19.
- We are quite positive to envisage upcoming years, given the current vaccination rate which will result in the normal human mobility.

Asking Price




- Apartment price remains at IDR35 million/sq m.
- In 2022-2025 we anticipate 4% increase per annum.

Rental Rate (IDR/sq m/month)



- Annual rents was down 4% in 2020 - 2021 as a result of the drop in occupancy.
- But we anticipate a 2.5% CAGR rental increase in 2022 - 2025 mainly underpinned by sound economic performance and more conducive situation when Covid-19 can be curbed.

A low-angle photograph of a modern multi-story apartment building with a glass and stone facade. The building has several balconies and large windows, set against a clear blue sky.

While overall landed housing prices show some gradual increases, apartment prices have either held ground or lost ground in the last few quarters.

Apartment projects with ready stock are competing better than under construction projects as they can offer VAT incentive.

Expatriate Housing

Tenant Market

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As the market is still dynamic, tenants still have more options.

Tenants need to have smart negotiations with owners and use the flexibility as an opportunity.

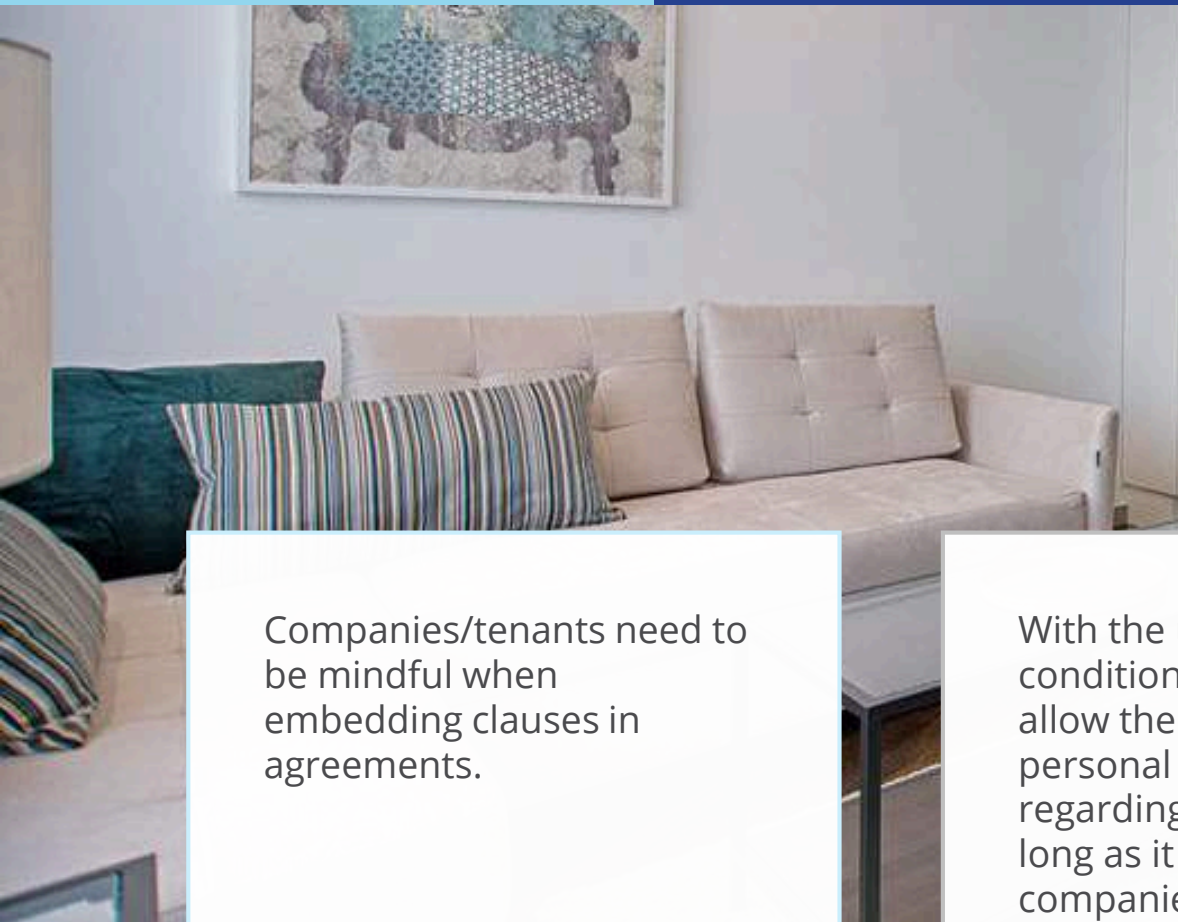
Tenants need to have knowledge of the market, since not everything that occurs in the market is applicable to all expatriate housing owners.

Even with its tenant market, there are few exceptions for high-demand residential. Some of these residences have begun to stabilise in terms of price and occupancy levels.

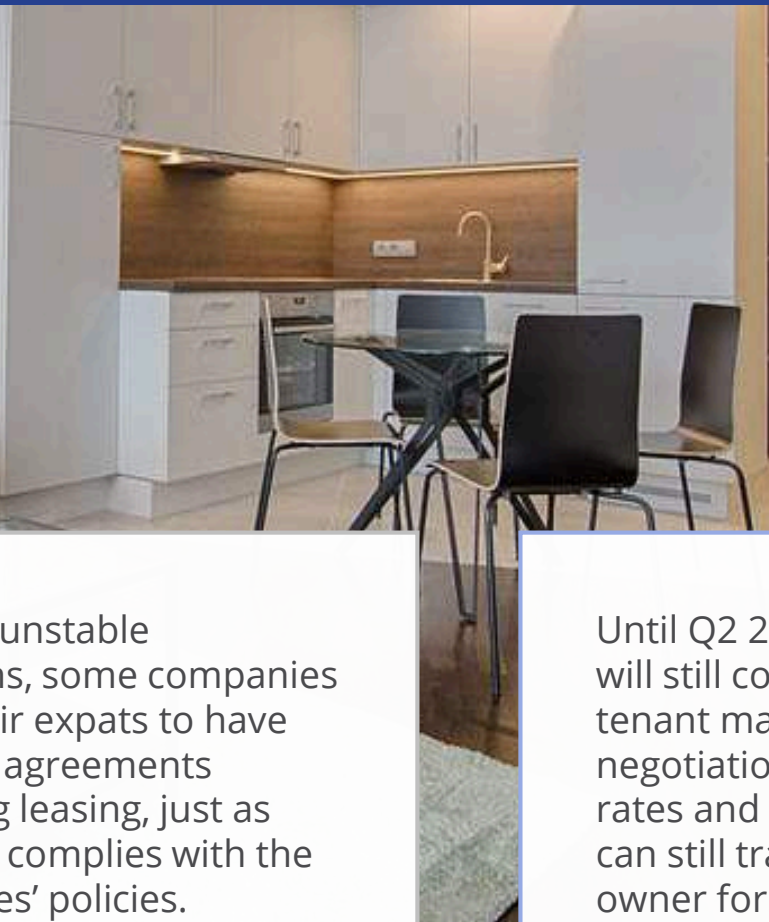
Expatriate Housing

Opportunity in 2022

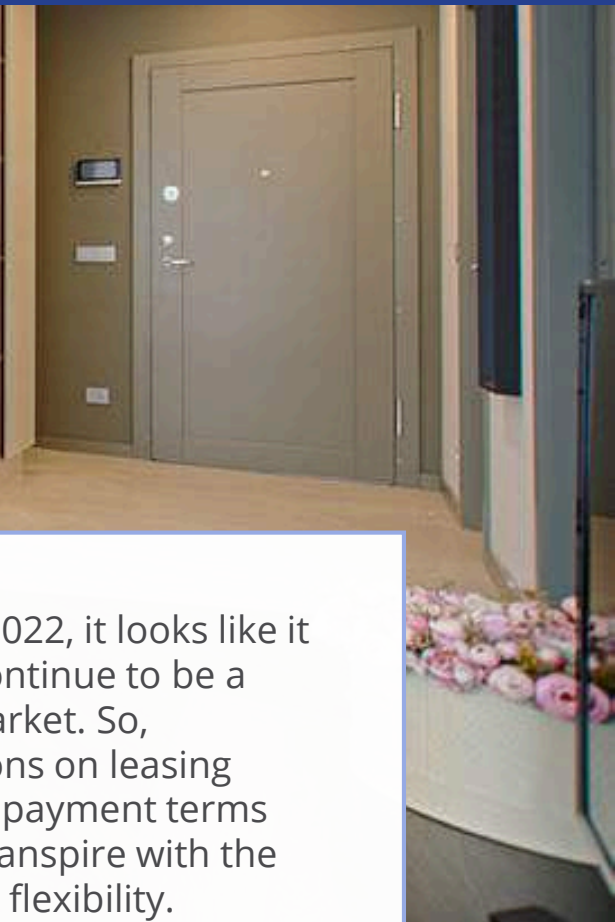
Colliers



Companies/tenants need to be mindful when embedding clauses in agreements.



With the unstable conditions, some companies allow their expats to have personal agreements regarding leasing, just as long as it complies with the companies' policies.

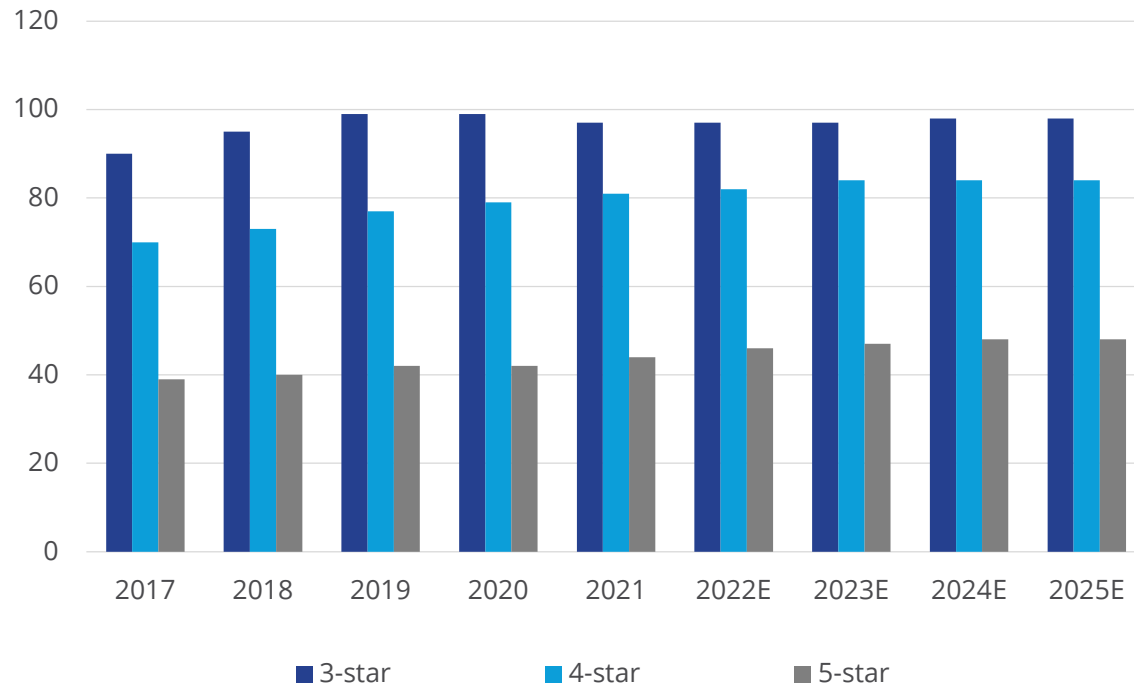


Until Q2 2022, it looks like it will still continue to be a tenant market. So, negotiations on leasing rates and payment terms can still transpire with the owner for flexibility.

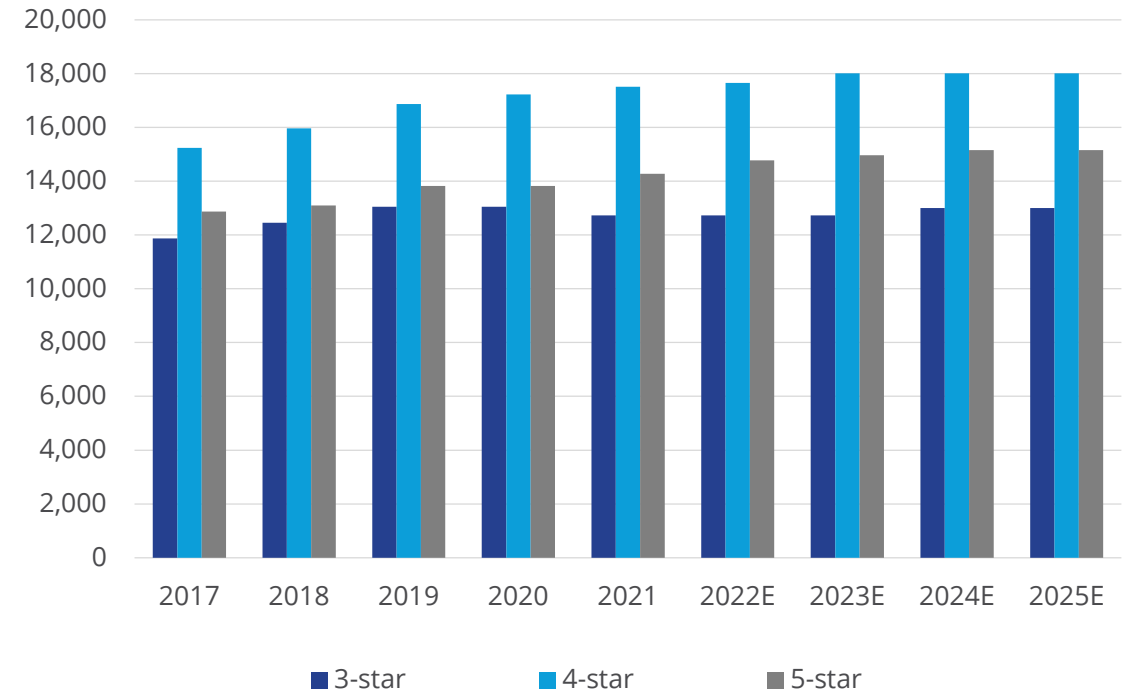


Hospitality Market

Hotel Project Cumulative Supply

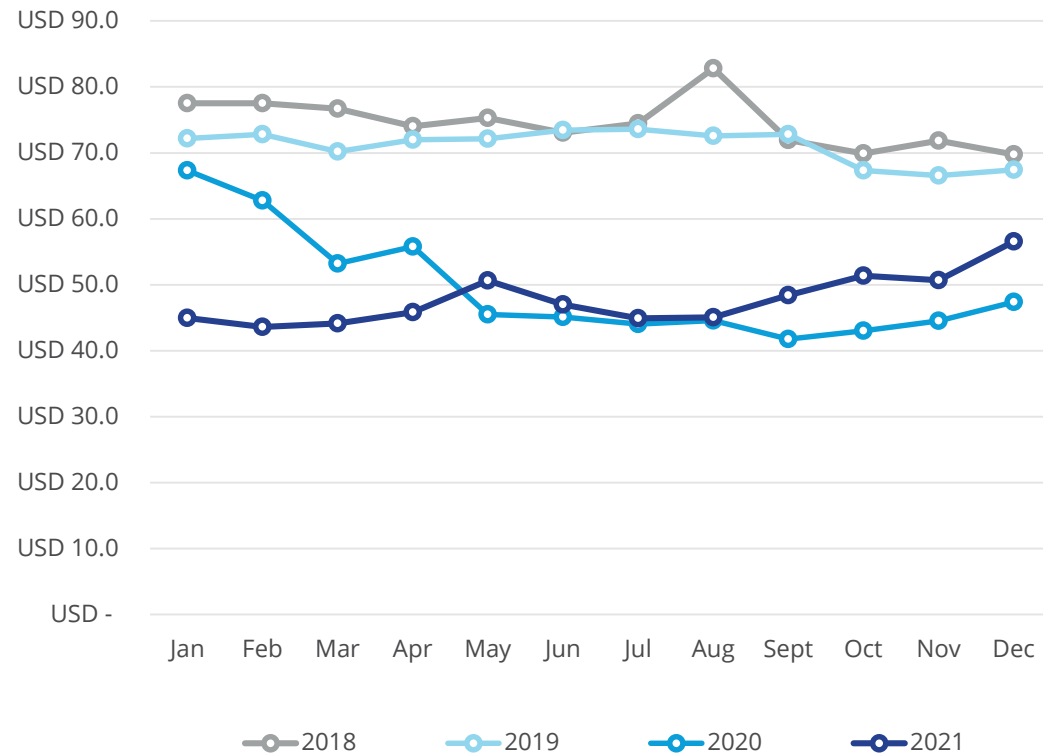


Hotel Room Cumulative Supply

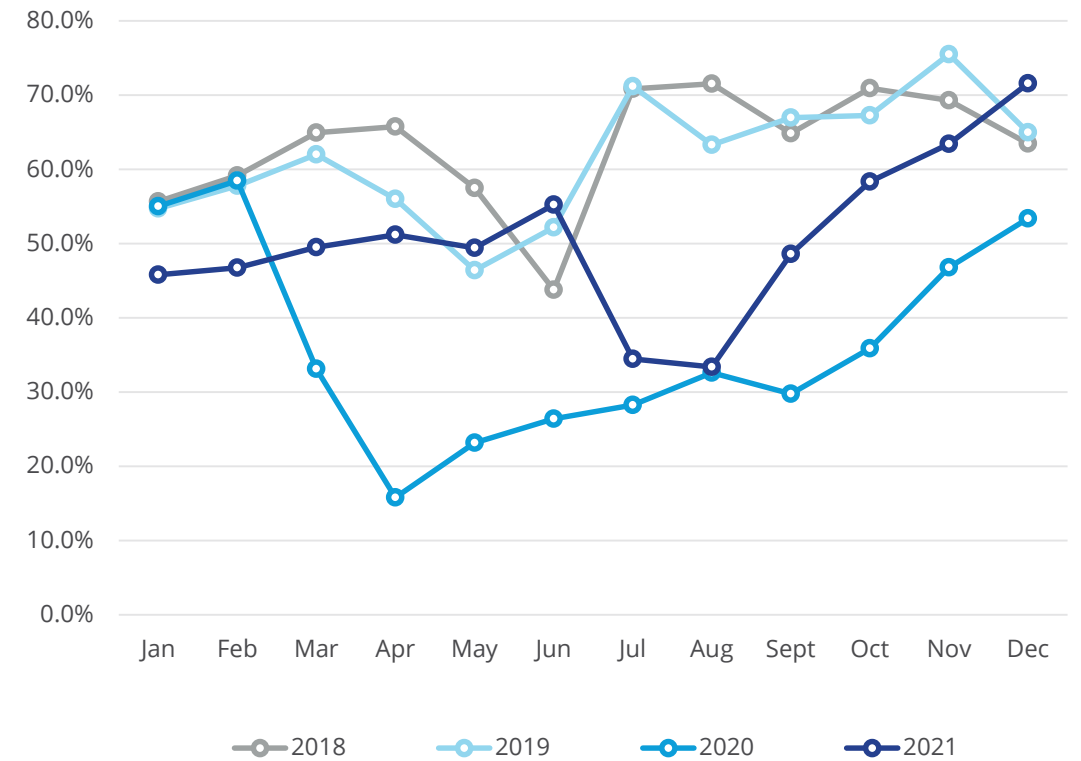


Hotel supply addition is now growing more moderate. This will be positive for the overall hotel market in the future.

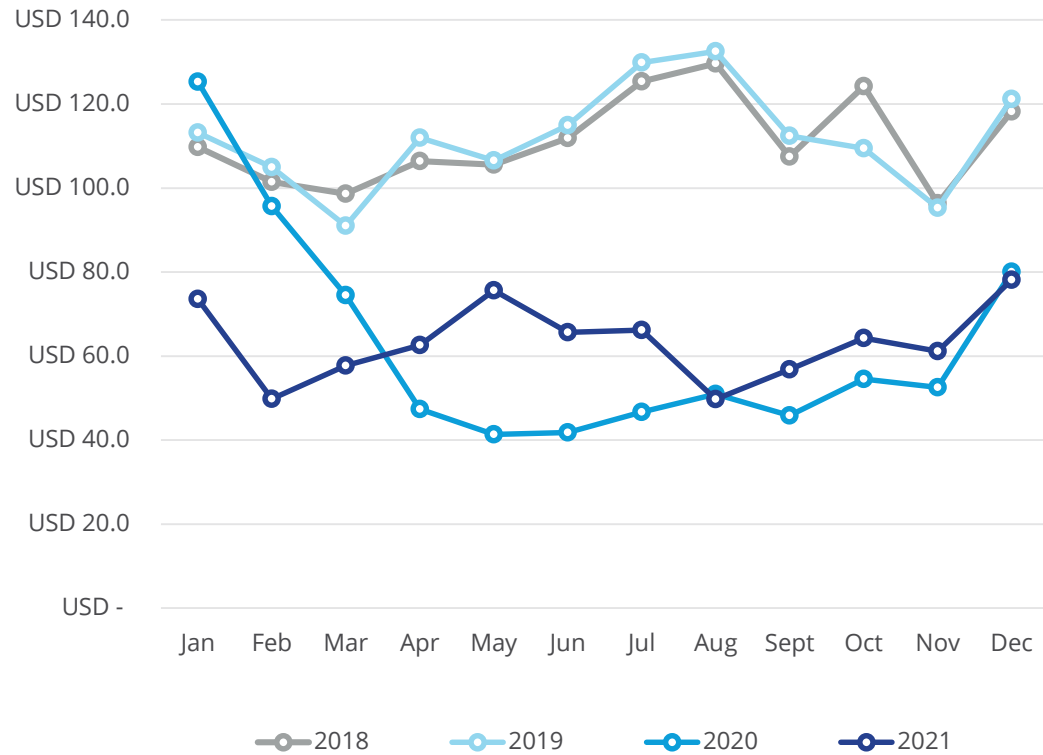
Average Daily Rate (ADR)



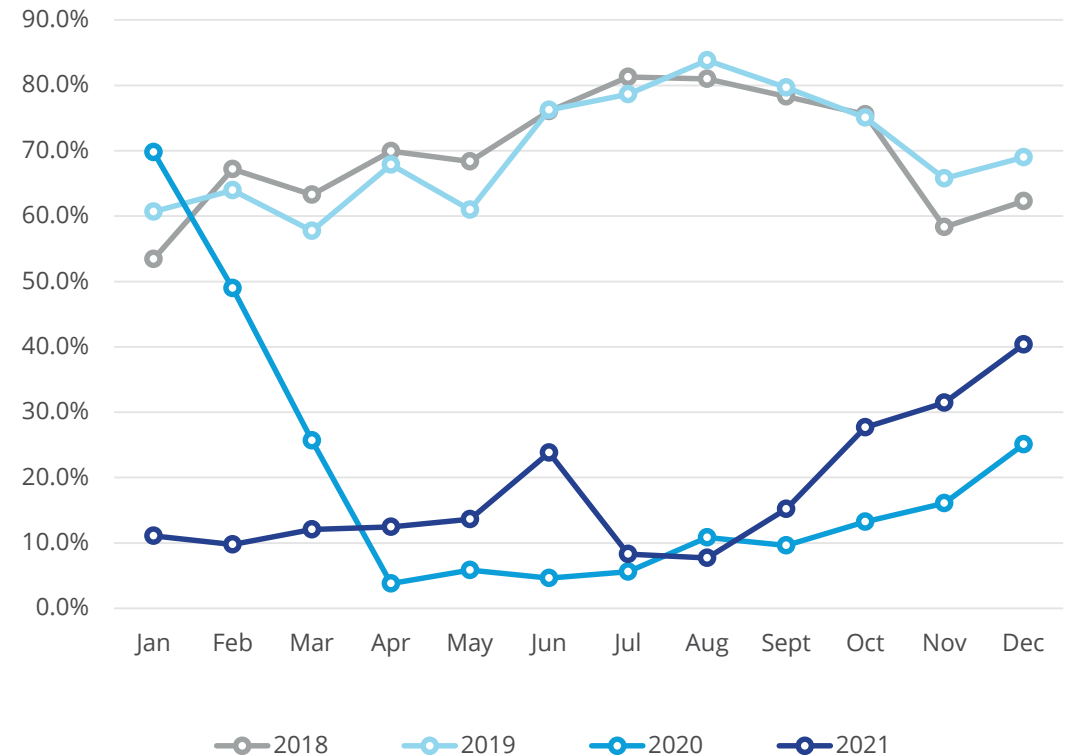
Average Occupancy Rate (AOR)



Average Daily Rate (ADR)



Average Occupancy Rate (AOR)



Market Resources (MICE & Government)



MICE will be the main business of many hotels in Jakarta, whilst support areas (BODETABEK) will also share the same market segment. However, support areas will also share the leisure and StayCation sectors better outside Jakarta.



The government segment will provide occupancy on weekdays and other business days, as well as other market sources.



New customer habits will be faced by all hospitality industries in many areas, including Jakarta and in other hospitality businesses, such as accommodation, restaurants, entertainment and others.

Indicators

- The Incremental performance in Occupancy and ADR of the total area
- The incremental of average customer spending in many businesses is increasing, even though it is unlikely to be better than the 2018 performance

Market Resources (MICE & Domestic)



As per government planning, Indonesia is going to host several International MICE events in 2022 to help boost tourism and business in South East Asia.



Bali and Jakarta will host some of these events and their associated areas will get benefits of visitors and related activities. The G20 Meeting is one of the events, with pre-events starting in March 2022.



Revenge Tourism will also create a very positive back-up to the number of visitors to Bali.

Indicators

Incremental Occupancy and ADR throughout the Bali Area.



Q & A



Mike D. Broomell
Managing Director

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