



## Q2 2017: Indonesia Commercial Property Monitor

# Momentum emerging in industrial, retail spaces but office segment continues to lag

### Occupier Market

- The Q2 2017 results showed an improvement in headline occupier demand. This was broadly driven by the industrial segment, where a net balance of 57% of contributors reported an increase in demand. Respondents indicated more modest momentum in office and retail demand in Q2.
- However supply remained a drag. Although supply of retail properties was flat and only a modest majority of respondents reported an increase in the supply of industrial properties, a net balance of 86% of respondents reported an increase in the supply of office space.
- A similar trend was seen in landlord inducements. A net balance of 71% of respondents reported an increase in incentives for office space in Q2, while a net balance of 14% reported an increase in incentives for retail properties and those for industrial properties were unchanged.
- Headline rents are expected to fall over the next three and twelve months, though the forecasts are nuanced. Much of the weakness is confined to the office segment, while industrial and retail rents are expected to be flat or positive over these time horizons.
- The Occupier Sentiment Index (OSI) increased to -3 from -28 in Q1. The OSI for the industrial and retail segments turned positive for the first time in two quarters.

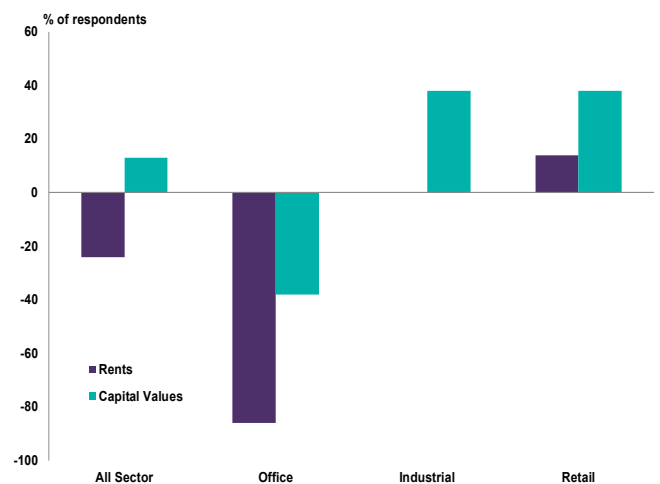
### Investment Market

- The Q2 2017 data shows investor demand continued to increase, as a net balance of 37% of contributors reported an increase in demand. Foreign enquiries showed a similar trend, though there was a meaningful increase in respondents reporting an increase in demand for industrial properties vs those reporting a decrease.
- Although respondents reported an increase in headline supply, this was driven by the office segment where a net balance of 50% of respondents reported an increase, while supply was flat for the industrial and retail segments.
- Capital value expectations were nuanced for the three and twelve month horizons. Respondents see office capital values lower for the next quarter or year, whereas industrial and retail values are expected to increase over these time horizons.
- The share of respondents who see the market at its bottom increased for the fifth consecutive quarter, hitting 50% in Q2. 25% of contributors still see the property cycle in some stage of a downturn, while 13% already see the cycle in the early stages of an upturn.
- The Investor Sentiment Index (an amalgamated measure of investor market indicators) rose to +11 in Q2 from +2 in Q1 as the office segment continued to be a drag on sentiment.

### Occupier and Investment Sentiment Index



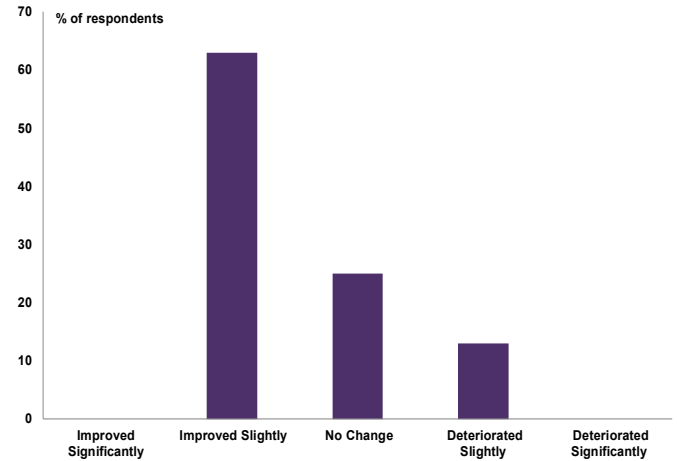
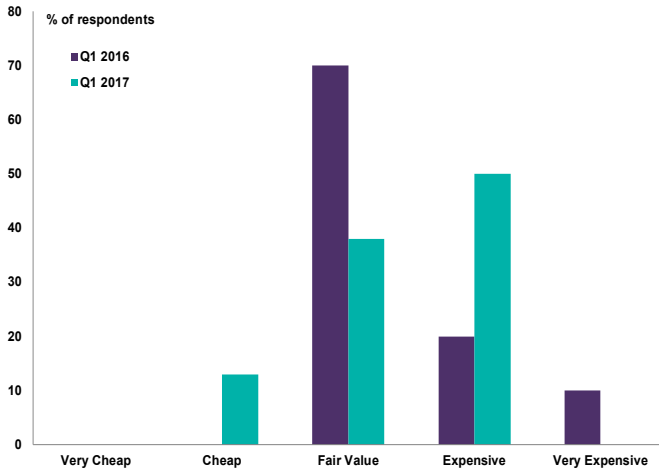
### 3-Month Capital, Rent Value expectations



# Commercial Property Market

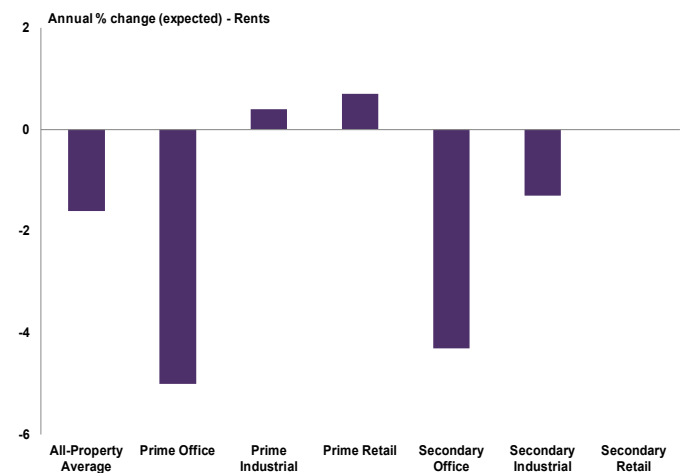
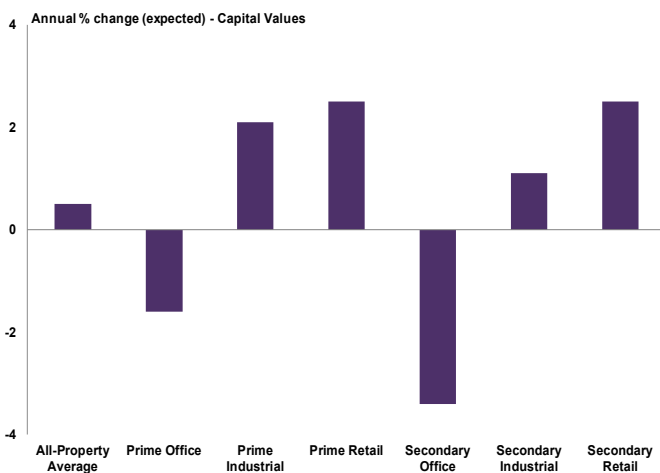
**Market Valuations** - The majority (50%) of contributors now see the market as above fair value to some degree. The share of contributors who viewed the market as fairly valued fell from 70% in Q1 to 38% in Q2.

**Credit Conditions** - For the fourth consecutive quarter, a majority of respondents (63%) reported a slight improvement in credit conditions. The share of contributors reporting a slight deterioration inched higher to 13% from 10% in Q1, while the remainder saw no change.



**12m Capital Value Expectations** - Expectations for headline capital values are now seen up 0.5% over the next year, after respondents forecast a 0.4% pullback in Q1. The rebound was broadly driven by the industrial and retail sectors, which are seen increasing 2.1% and 2.5% respectively over the next year for prime locations.

**12m Rental Expectations** - Rent expectations over the next year were less bearish in Q2 from Q1. This was broadly driven by expectations for industrial and retail properties, where rents are seen up 0.4% and 0.7% over the next year respectively at prime locations, where as prime office rents are expected to fall 5% over the next year.



# Information

## Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website [www.rics.org/economics](http://www.rics.org/economics) along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

## Methodology

Survey questionnaires were sent out on 14 June 2017 with responses received until 10 July 2017. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1427 company responses were received, with 316 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

## Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: [economics@rics.org](mailto:economics@rics.org)

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