Q4 2017: Indonesia Commercial Property Monitor

Respondents report robust occupier momentum while investment market lags

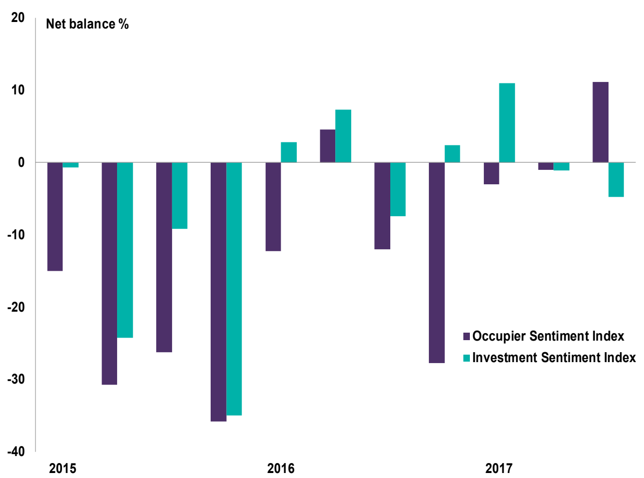
Occupier Market

- The Q4 2017 results indicate headline occupier demand continues to increase at a robust pace. Demand for office space, where a net balance of 50% of respondents reported an increase was particularly strong, though contributors reported an increase across all three market segments (office, industrial, retail).
- The supply of property available to rent exhibited a similar dynamic, as respondents reported an increase in supply across all three market segments.
- Meanwhile, landlord inducements reportedly increased for office and retail space, while industrial space saw no change in Q4. New development starts increased for the first time since Q1 at a headline level.
- Rents are now seen increasing across all market segments over the next three and twelve months. It is the first time since this survey was introduced in Q2 of 2015 that respondents forecast office rents to increase over either time horizon.
- The Occupier Sentiment Index (OSI) was little changed at -1 in Q3 (vs -3 in Q2). This indicates neutral momentum in the occupier market.

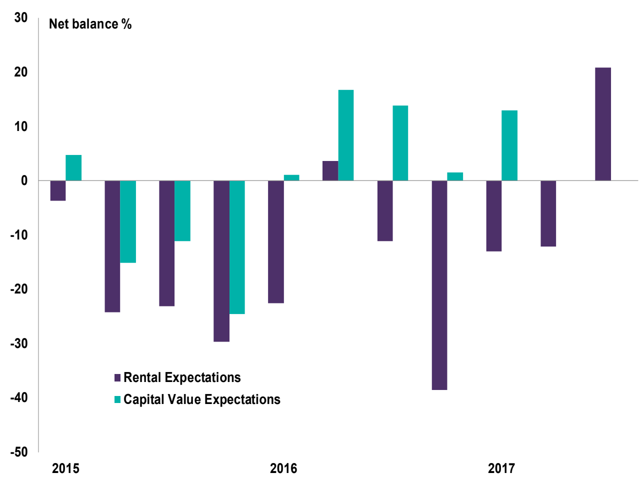
Investment Market

- Headline investor demand continued to increase in Q4 with the strength spread evenly across all three market segments. Foreign enquiries for investment also remained robust in Q4, particularly for office and industrial properties.
- However, this increase in demand was largely offset by a sharp increase in supply. The office segment saw the sharpest increase in supply in net balance terms, with a net balance of 86% of respondents reporting an increase in the number of office properties available for sale.
- Against this backdrop respondents see headline capital values flat over the next three months, and only a modest increase over the next year. Office valuations are expected to register modest declines over both periods.
- The perception of the property cycle is evenly skewed, with 43% of respondents each seeing the market at some phase of an upturn and some phase of a downturn. However, this is significantly different than Q3, when 80% of respondents still viewed the market as being in a downturn.
- The Investor Sentiment Index fell modestly to -5 in Q4 from -1 in Q3, indicating modestly neutral momentum in the investment market.

Occupier and Investment Sentiment Index

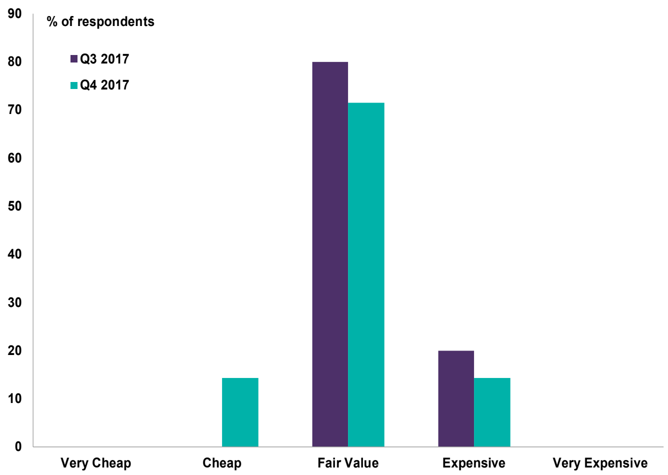


3-Month Capital, Rental Value expectations

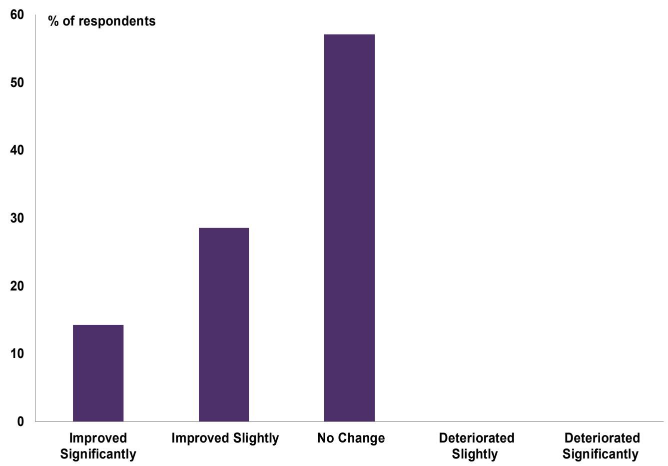


Commercial Property Market

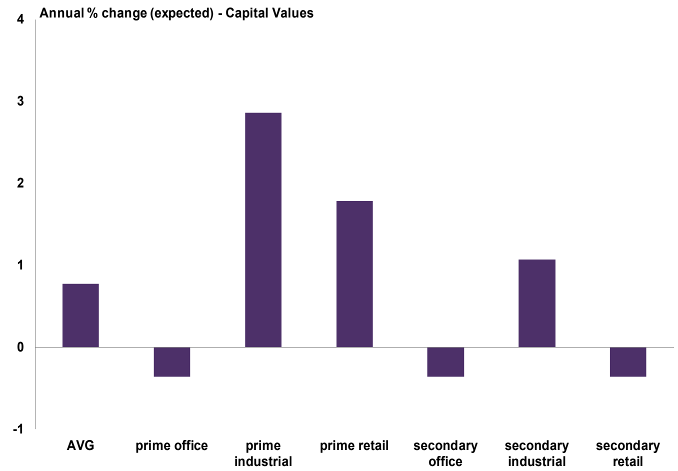
Market Valuations - Respondents perception of valuations were evenly skewed in Q4. 71% of respondents saw the market as fairly valued (80% in Q3), while 14% saw the market as cheap and the remaining 14% viewed the market as expensive.



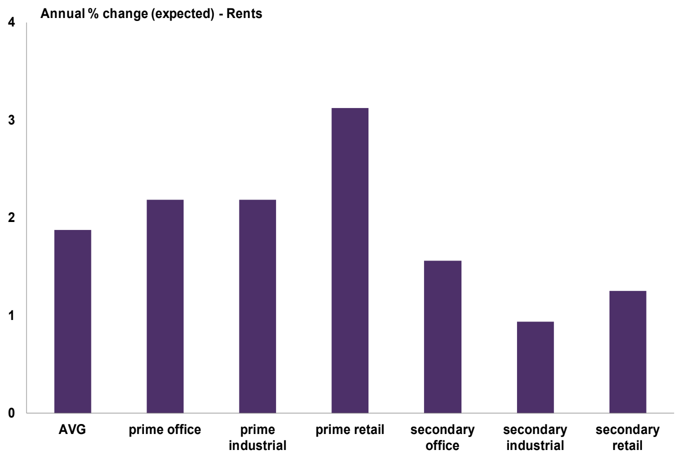
Credit Conditions - Most contributors (57%), saw no change in credit conditions during Q4. 33% did report some degree of improvement in credit conditions, though this was down slightly from the 50% that held this view in Q3.



12m Capital Value Expectations - Headline capital value forecasts were revised higher in Q4. Capital values are now seen rising 0.8% at an aggregate level over the next year, vs expectations for a 1% decline forecast in Q3. The upward revision was largely due to more bullish expectations surrounding the office and retail segments of the market, though office valuations are expected to decline less than the previous forecast.



12m Rental Expectations - Respondents expect headline rents to increase 1.9% over the next year, after forecasting declines at a headline level for the past nine quarters. Respondents turned particularly bullish on office space, expecting prime location rents to increase 2.2% over the next year (vs a 5.5% decline forecast in Q3) and increase 1.6% at secondary locations (vs a 3.9% decline forecast in Q3).



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 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 13 December 2017 with responses received until 12 January 2018. 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 1570 company responses were received, with 434 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

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**

Disclaimer

Economics Team

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Kisa Zehra

Economist

+44(0) 7695 1675

kzehra@rics.org

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United Kingdom RICS HQ
Parliament Square, London
SW1P 3AD United Kingdom
t +44 (0)24 7686 8555
f +44 (0)20 7334 3811
contactrics@rics.org
Media enquiries
pressoffice@rics.org

Ireland
38 Merrion Square, Dublin 2,
Ireland
t +353 1 644 5500
f +353 1 661 1797
ricsireland@rics.org

Europe
(excluding UK and Ireland)
Rue Ducale 67,
1000 Brussels,
Belgium
t +32 2 733 10 19
f +32 2 742 97 48
ricseurope@rics.org

Middle East
Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates
t +971 4 446 2808
f +971 4 427 2498
ricsmenea@rics.org

Africa
PO Box 3400,
Witkoppen 2068,
South Africa
t +27 11 467 2857
f +27 86 514 0655
ricsafrica@rics.org

Americas
One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA
t +1 212 847 7400
f +1 212 847 7401
ricsamericas@rics.org

South America
Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil
t +55 11 2925 0068
ricsbrasil@rics.org

Oceania
Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000. Australia
t +61 2 9216 2333
f +61 2 9232 5591
info@rics.org

North Asia
3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong
t +852 2537 7117
f +852 2537 2756
ricsasia@rics.org

ASEAN
10 Anson Road,
#06-22 International Plaza,
Singapore 079903
t +65 6635 4242
f +65 6635 4244
ricssingapore@rics.org

Japan
Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan
t +81 3 5532 8813
f +81 3 5532 8814
ricsjapan@rics.org

South Asia
48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India
t +91 124 459 5400
f +91 124 459 5402
ricsindia@rics.org