28.2%
A DOUBLE DIGIT VACANCY RATE AS OF 2H 2021

407,647
SQUARE METERS OF NEW SUPPLY IN THE PIPELINE UNTIL 2022

-36,489
SQUARE METERS OF OVERALL TAKE UP AS OF 2H 2021

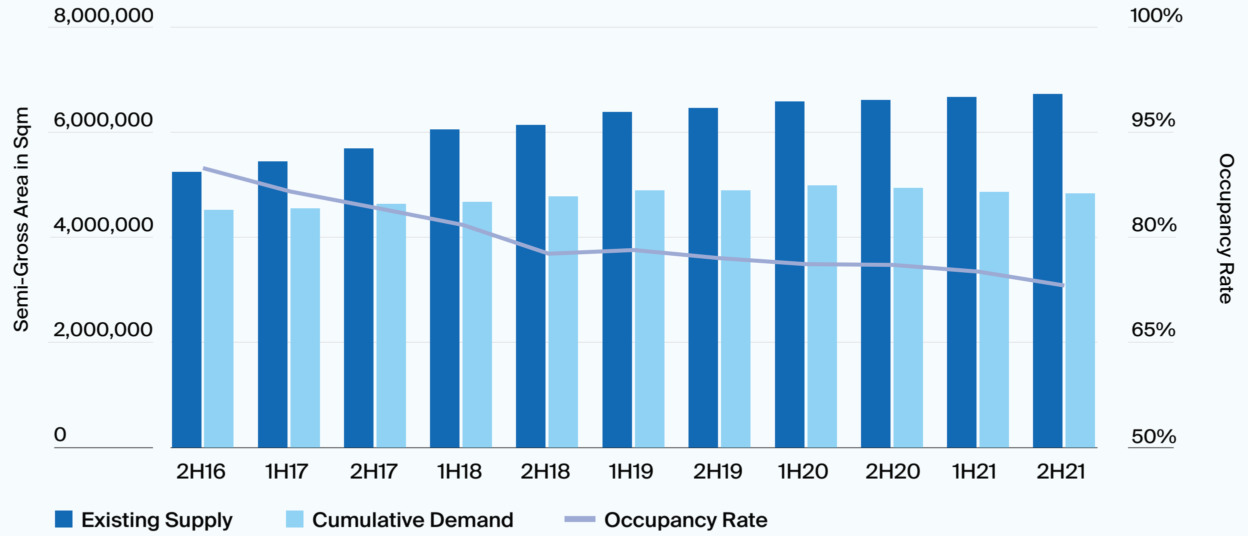
Knight Frank

knightfrank.co.id/research

Jakarta CBD Office Market Overview

2H 2021

Fig 1: Jakarta CBD Office - Supply, Demand and Occupancy
2H 2016 - 2H 2021



Source: Knight Frank Research

Office inquiries started to gradually recover in the fourth quarter of 2021 after the peak of second wave in the third quarter, causing mobility and activity restrictions. New speculative projects in the pipeline for 2022 completion will put further pressure on rents and occupancy.

Office Market Update

The cumulative total office stock in the Jakarta CBD increased slightly year-on-year by 2.4% to 7,068,941 square meters with only two newly completed projects (RDTX Place and Trinity Tower) entering the market during 2021. The rental office stock was recorded at 4,929,169 square meters of which 25% was Premium Grade A, 62% was Grade A, 13% was Grade B and 1% was Grade C. Approximately 407,647 square meters of the total new office supply in the pipeline with five projects underway are expected to enter the market in 2022, bracing for high entry of new Grade A supply. Due to the prolonged pandemic, developers are expected to adopt a “wait and see” approach with no new office projects likely to launch in the near term.

With the net absorption hitting an all-time low of negative 97,047 square meters since 2014, the overall occupancy has continued to experience a downward trend, dipping to 71.8% in the end of 2021 and leaving a total of 1,990,291 square meters of vacant spaces. The continuing trend of flight to quality was partly reflected in the net absorption figures for the entire year of 2021. Grade B and Grade A Premium buildings recorded the largest negative net take-ups of 69,842 square meters and 36,627 square meters, respectively; While Grade A and Grade C showed small positive net take-ups of 7,696 square meters and 1,727 square meters, respectively.

Fig 2: Distribution of Net Absorption by Grade 2H 2021

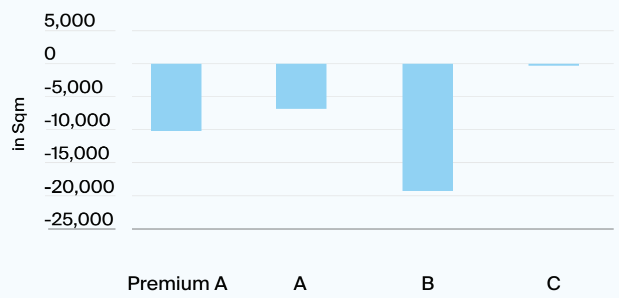


Fig 3: Jakarta CBD Office - Average Gross Rental in IDR
2H 2016 - 2H 2021

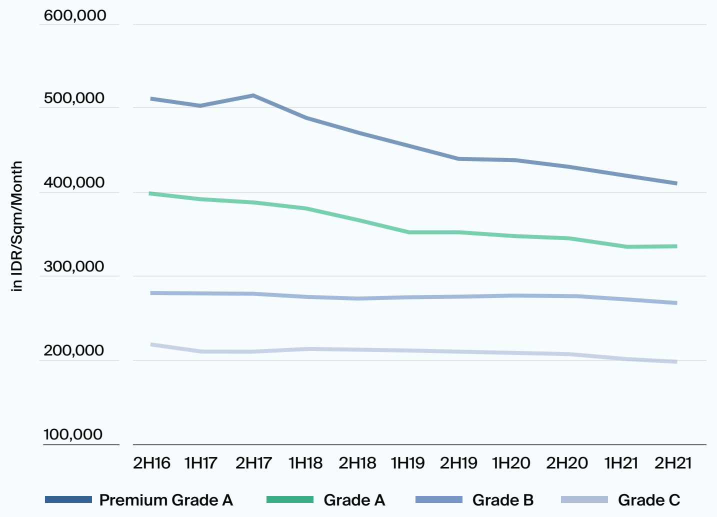
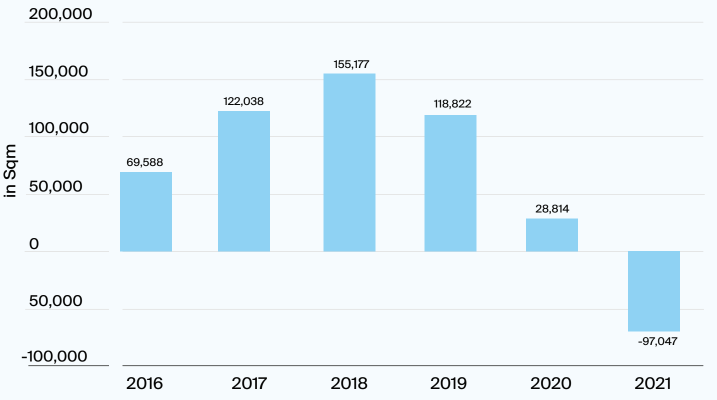


Fig 4: Jakarta CBD Office - Annual Absorption
2016 - 2021



Note: pledges made after publication of manifestos are included where possible

The recurring wave of Delta-variant has continued to negatively impact all business sectors and triggered some downsizings-consolidations, relocations and office closures in the Jakarta CBD office buildings in 2021. Leasing transactions during the second half of 2021 primarily involved companies from the Pharmaceuticals, FMCG (Fast Moving Consumer Goods), Information Technology (IT), Fintech and Construction sectors.

The total average asking base rental in Rupiah terms has continued to show steady decrease, dropping by 4.6% (yoy) to Rp250,410 per square meter per month in the second half of 2021, the lowest level since 2013. Meanwhile, Grade Premium A buildings experienced the highest average asking base rental reduction of -6.4% (yoy) in Rupiah terms. With the new supply in 2022 equivalent to 5.8% of existing stock and set against slow market conditions leading to an increase in vacancy, rental values are expected to remain downward pressure. Existing buildings with rising vacancy in the near term continue to face difficulty with greater flexibility in rental incentives and negotiations to capture new leases and maintain existing tenants.

To adapt to the uncertain times ahead, most companies are expected to focus on returning to normal office settings, despite the broader acceptance of hybrid working models (sharing time between the traditional office settings and working remotely). Although other occupiers have been taking advantage of the subdued market situation to upgrade into newer buildings with more attractive deals and better space specifications, they have been more cautious in their decision-making as well as focusing on renewing and restructuring current leases with more flexible contracts and conservative space requirements to improve security in a volatile market condition. Despite the market challenges, demand for office space is expected to slowly improve given positive economic outlook in 2022 and driven by more widespread adoption of hybrid work models with emphasis on collaboration space, and employers focusing on traditional office settings.

"Amid recurring waves of the pandemic, office occupiers remain to experience business disruptions and a shift in work patterns with remote and hybrid work here to stay."

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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