PROPERTY INDUSTRY

PROPERTY INDUSTRY PROSPECTS IS WEAK IN THE RENTAL SEGMENTS BUT RELATIVELY TOUGH IN THE SELLING SEGMENTS

We are of the view that the prospects of the property industry are mixed in the short term. We expect sluggish demand for the rental property market, while for the selling segment, especially landed houses, demand to remain quite strong. The property market has been operating on its fundamentals following the end of the commodity boom in 2014. Starting from early 2020, however, the Covid-19 pandemic brought about a contraction of economic activity, hence economic growth, resulting in the subdued demand for rental properties and to a lesser extent properties for sale.

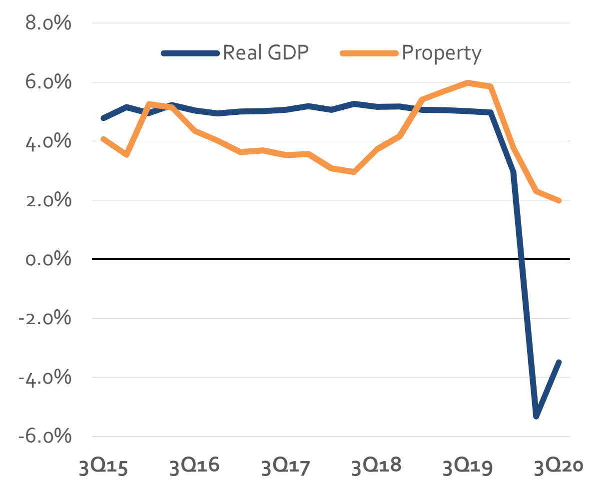
We expect an increase in household savings as a precaution against worsening financial conditions, which will translate to an impaired demand for residential property products. The sluggish business environment will in turn lead to subdued demand for office and commercial spaces as well as industrial lands. The restriction on local and cross border mobility will also severely hurt the tourism sector and eventually hotel operators as occupancy rates dropped to an unprecedentedly low level.

We are of the view that the prospect will largely depend on how quickly the economy recovers. We see that supply will virtually remain unchanged in the short term. One of the main risks in the short term is the increasing prevalence of new cases which may set a new record at the end of the fourth quarter of 2020. Over the medium term, we expect that an effective vaccination program combined with the government's economic stimulus will support a rebound from the demand side. However, the recovery will likely vary across property segments. The tourism-related segment will probably recover more slowly as regional mobility is likely to be limited. Businesses will also exercise more caution prior to boosting production and will remain vigilant on the sustainability and strength of the rebound in demand.

GROWTH SLOWS DOWN **STEADILY**

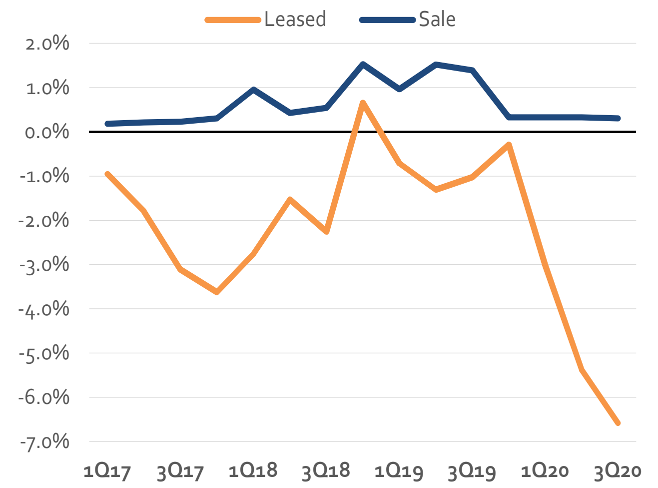
The property industry's growth slowed down by 2% year-on-year (YoY) in third quarter of 2020, well below the same quarter of the previous year (6.0% YoY). The pandemic has impacted a recession on Indonesia's economy. In general, various property segments are closely related to economic activity, thereby an economic recession will eventually weaken the demand for property since consumers tend to exercise more prudence in their expenditure in the face of an economic recession. Besides, leasing activities and occupancy rates in several residential and hotel segments are weak due to the sluggish business and tourism activities. Many expats return to their home countries and do not extend the lease due to lockdowns. The number of foreign tourists has drastically plunged, coupled with declines in meeting and conference activities, dropping their occupancy rates to an unprecedentedly low level.

EXHIBIT 1. PROPERTY VS. REAL GDP GROWTH (% YOY)



Source: Central Bureau of Statistics, Bank Indonesia

EXHIBIT 2. COMMERCIAL PROPERTY PRICE INDEX (% YOY)

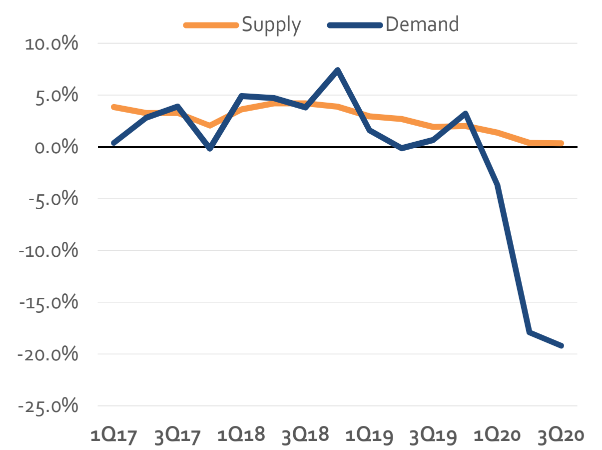


Source: Bank Indonesia

Supply is declining at a more moderate pace than demand. Developers are starting to delay their projects in view of falling demand and the ban on large-scale outdoor activities.

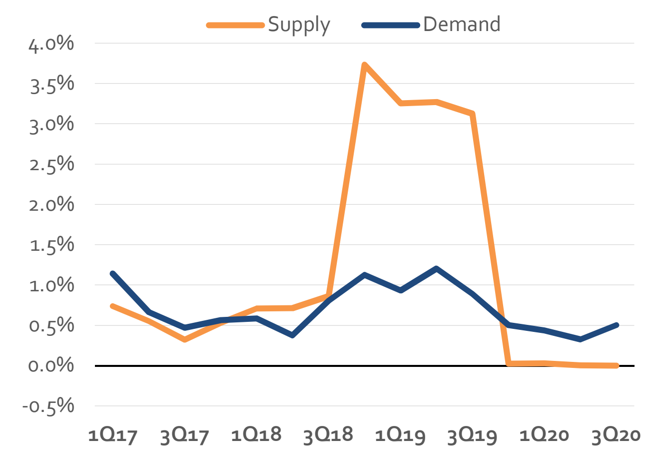
The pressure varies across property types. The rental property segment came under the most significant pressure resulting in the persistent contraction since early 2019, which further worsened in the third quarter of 2020 as reflected in the property rental price index falling by 6.6% YoY, based on a Bank Indonesia survey. The combination of both weaker demand and oversupply exposes the market to severe vacancy risks, pushing down prices. The demand for rental property contracted by 19.2% YoY in the third quarter of 2020, while supply, after growing by 1.4% YoY, began to stagnate, edging up by only 0.3% YoY in the third quarter of 2020.

EXHIBIT 3. SUPPLY AND DEMAND INDEX OF RENTAL PROPERTY (% YOY)



Source: Bank Indonesia

EXHIBIT 4. SUPPLY AND DEMAND INDEX OF THE SALE PROPERTY (% YOY)

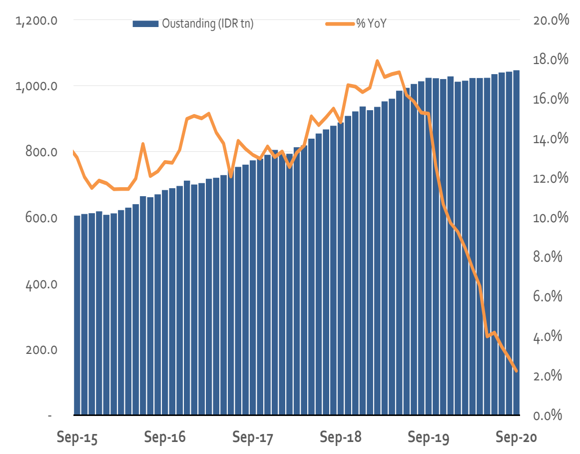


Source: Bank Indonesia

Meanwhile, in the selling property market, until the third quarter of 2020, the condition was relatively better than the rental market with the price index rising by 0.3% YoY. This was due to the substantial supply cut by developers, relying more on the projects completed in the previous year. The remaining buoyant demand (growth of 0.5% YoY) has also helped maintain the relatively stable sell property prices up to the present.

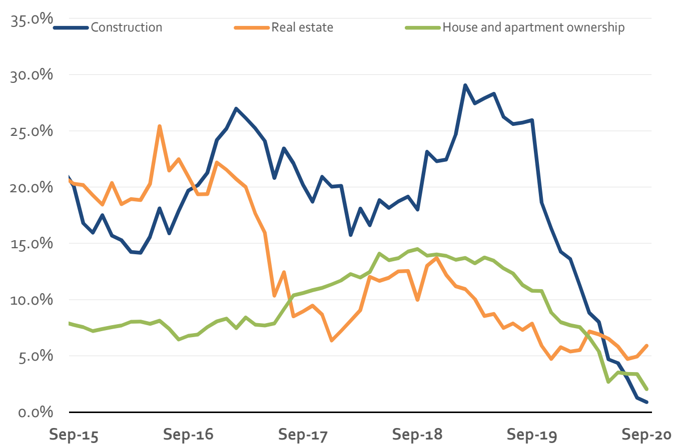
The downturn in the property industry was also reflected in the demand for commercial bank loans. Outstanding loans have slowed down steadily since the end of 2019. As of September 2020, it only grew by 2.0% YoY to IDR1,048.4 trillion, well below that in 2019 (9.7% YoY). The slowdown occurred in all categories of segment. In terms of property demand, outstanding loans for home and apartment ownership grew by 2.1% YoY in September 2020 to IDR509.7 trillion (48.6% of total outstanding), which was lower than that in the same period of the previous year (10.8% YoY).

EXHIBIT 5. LOANS TO THE INDONESIA PROPERTY INDUSTRY



Source: Bank Indonesia, OJK

EXHIBIT 6. PROPERTY LOANS BY SEGMENT (% YOY)



Source: Bank Indonesia, OJK

With regard to the banking loan segment for property construction, it grew only by 5.9% YoY to IDR369.0 trillion as of September 2020, 7.9% lower than the same period in the previous year. Furthermore, banking loan growth in the real estate segment grew only slightly by 0.9% YoY to IDR169.7 trillion, a stark contrast with 26.0% YoY in September 2019. Both segments represent lending for supply activities in the property sector, including commercial properties, such as offices, retail spaces, and high-end residential complexes.

EXHIBIT 7. PROPERTY LOAN NPL RATIO TO HOUSEHOLD SECTOR*

*Including consists of loans for ownership of houses, flats, apartments, shop houses and home offices.
Source: Financial Services Authority (OJK)

The economic recession has contributed to worsening the household sector finances, weakening the capacity to service bank loans. Non-promoting loan (NPL) property loans to the property sector increased in the second quarter of 2020 before decreasing in the third quarter. As of September 2020, NPL went up by 11.6% YoY to IDR16.3 trillion, including loans for houses, flats, apartments, shop houses, and office houses ownership. Regarding the ratio to total outstanding, it stood around 3.1%.

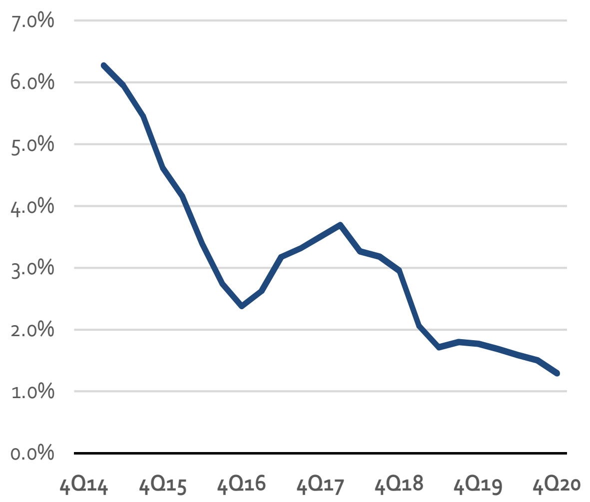
RESIDENTIAL PROPERTY SEGMENT

The residential property price index has persistently been on a declining trend to below 2.0% since early 2020 as the pandemic has restrained consumers spending. Instead, they tend to maintain a precautionary balance by cutting spending on secondary and tertiary needs.

Homeownership loans also subdued. The growth slackened from 10.3% YoY in September 2019 to 2.1% in September 2020 with an outstanding value of IDR485.0 trillion.

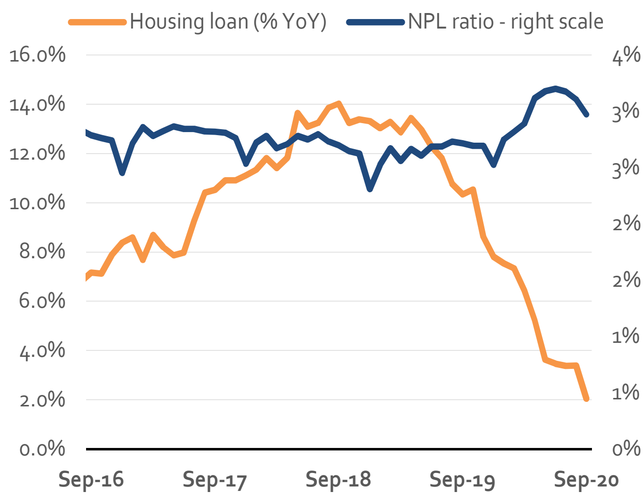
The housing segment in Jabodetabek witnessed a declining trend in demand as reflected in the average number of housing units transacted per month per estate, down by 5.7 units to 22.4 units per month in the first half of 2020. Similarly, the sales of landed residential in Jabodetabek came under pressure in the first half of 2020 following the outbreak of the COVID-19.

EXHIBIT 8. RESIDENTIAL PROPERTY PRICE INDEX (% YOY)



Source: Financial Services Authority (OJK)

EXHIBIT 9. HOME OWNERSHIP LOAN AND ITS NPL RATIO

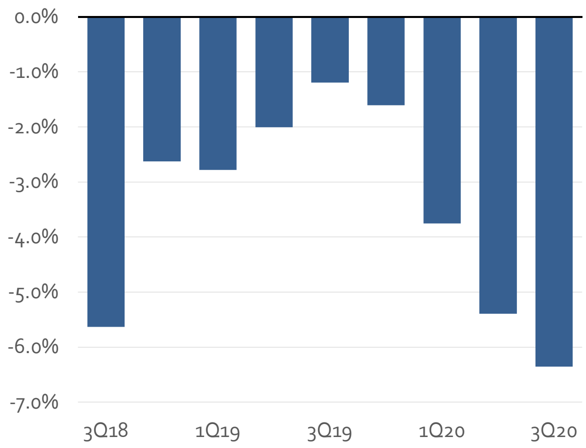


Source: Financial Services Authority (OJK)

The impact of the relaxation of Loan to Value (LTV) and Financing to Value (FTV) ratios for KPR transactions is still minimal. While the regulation stipulates that banks allow a down payment (DP) of 0% for submitting mortgage loans for the first house, banks mostly exercise caution in extending credit. Following the pandemic, a number of banks even raised the minimum DP requirement to 10-20% (for the first mortgage applications) while others focused on restructuring existing mortgage debt and limiting acceptance of applications for new mortgages.

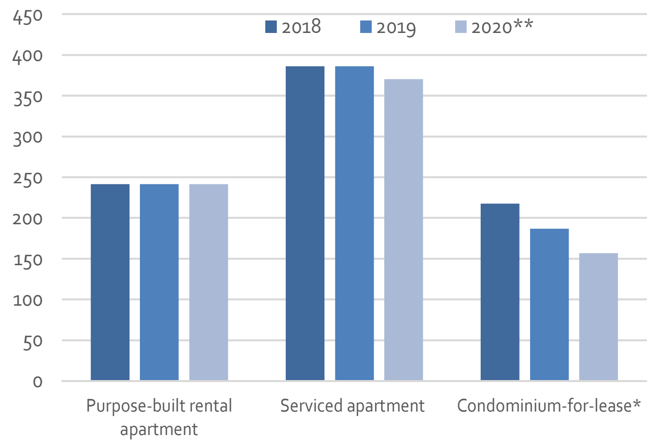
Furthermore, in the rental apartment subsegment, rental rates continue to be in the negative territory with the third quarter of 2020 down by 6.4% YoY. In Jabodetabek, the decline in the rental condominium occupancy led the rental price to dropping by an average of 16.0% YTD to IDR156,973 per square meter per month. As for other apartments, such as purpose-built rental apartments and serviced apartments, the rental rates also declined albeit more modestly, below the single-digit level.

EXHIBIT 10. PRICE INDEX FOR RENTAL APARTMENTS (% YOY)



Source: Bank Indonesia

EXHIBIT 11. RENTAL RATES FOR APARTMENTS IN JABODETABEK (000 IDR/SQM/MONTH)



**Jabodetabek*
** as of 3Q2020*
Source: Cushmand and Wakefield

The sluggish demand has induced unit owners, especially individuals, to be willing to accept lower rental rates. As the pandemic limits mobility and business activities, the demand for rental housing declined, including that by expats. Similarly, some domestic tenants did not renew their contracts upon termination partly because their business suspended operation during the pandemic.

EXHIBIT 12. INDICATORS OF APARTMENTS FOR SALE IN THE JABODETABEK AREA

	Supply (unit)			Selling rate		
	2018	2019	2020*	2018	2019	2020*
Lower-Middle	60,638	71,194	78,025	88.4%	88.7%	89.7%
Middle	136,979	150,739	156,407	96.4%	94.6%	94.5%
Upper-Middle	42,024	48,977	52,898	95.8%	94.1%	95.1%
Upper	24,773	26,676	26,870	94.5%	93.4%	93.5%
Greater Jakarta	264,414	297,586	314,200	NA	93.0%	93.3%

Segmentation based on price per square meter before tax:
- *Lower-Middle (<IDR14 million)*
- *Middle (IDR14-25 million)*
- *Upper-Middle (IDR25-35 million)*
- *Upper (>IDR35 million).*

Source: Cushman and Wakefield

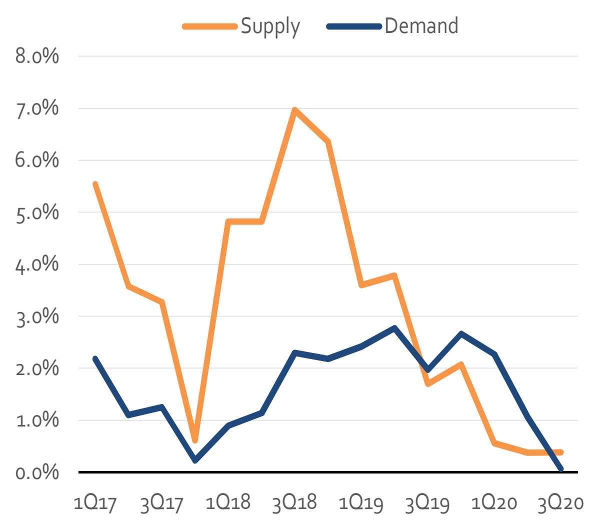
Demand has been relatively more favorable for apartments for sale in Jabodetabek, especially in the lower-end segment with prices of less than IDR14 million per square meter (excluding taxes). In total, net sales reached 16,472 units during the first nine months of 2020, of which approximately 98.7% came from this segment.

OFFICE SEGMENT

Demand for office space has been sluggish due to falling business activity along with the economic recession. Some companies scaled back their operations by cutting the number of their workers; hence, reducing the need for office space. Based on the Central Statistics Agency data, the number of unemployed people jumped to 9.8 million for the August 2020 survey, an increase of around 2.7 million from August 2019. Furthermore, many companies also relocated their offices to cheaper areas for efficiency, while some closed several branch offices to cut loss.

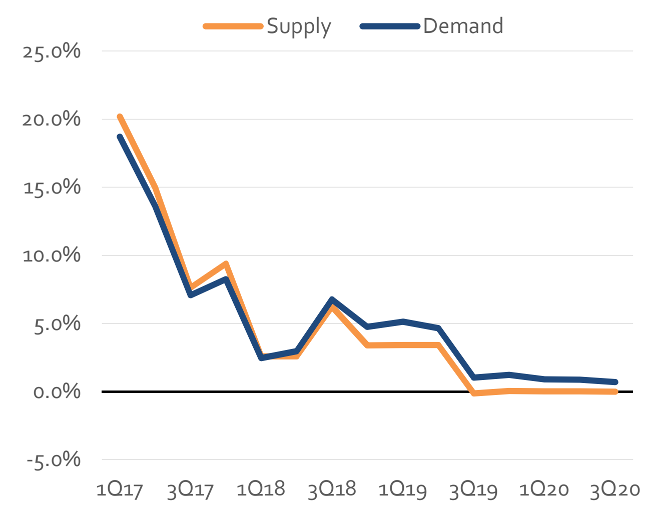
The rental office segment was the hardest hit. An acceleration in the growth of supply during 2017-2019 has resulted in excess supply particularly because the pandemic starting in the first quarter of 2020 induced the business sector to prioritize efficiency. The growth in the price of rental office space remains negative, down by about 1% based on a survey by Bank Indonesia. Regarding the selling office space segment, the prevailing prices have been stagnant.

EXHIBIT 13. RENTAL OFFICE SUPPLY AND DEMAND INDEX (% YOY)



Source: Bank Indonesia

EXHIBIT 14. SALES OFFICE SUPPLY AND DEMAND INDEX (% YOY)



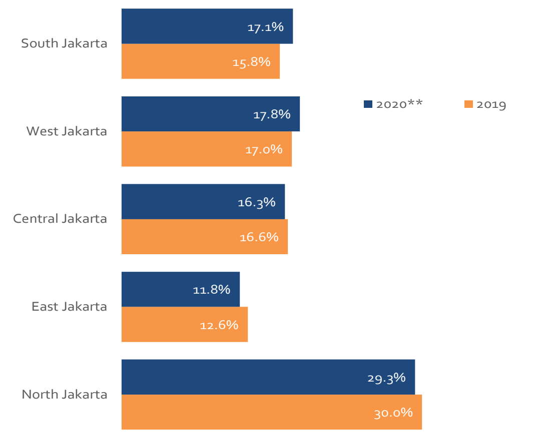
Source: Bank Indonesia

In Jakarta, the expansion of supply coupled with the sluggish demand for leases have led to an increase in the vacancy rates in several areas, such as Satrio area and South Jakarta. Meanwhile, the increase in vacancy rates in several areas, such as Kuningan area, was due to lower demand. Accordingly, many businesses sought to relocate to cheaper alternative so as to maximize efficiency.

Throughout 2020 witnessed an expansion of new office space, both in the central business district (CBD) and other areas. In the non-CBD areas, as of the first half of 2020 supply increased by 0.7% YoY to 4.6 million square meters, of which around 19,956 square meters were located in North Jakarta and 13,997 square meters in South Jakarta.

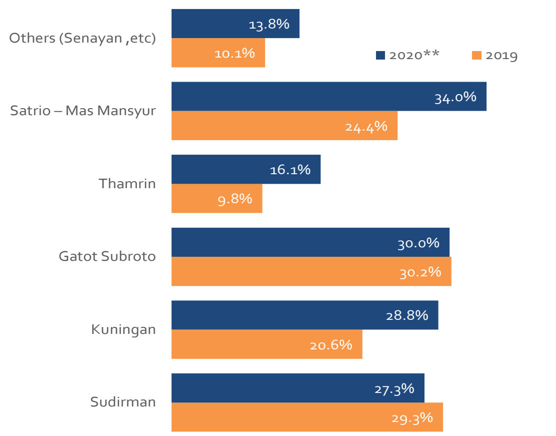
Meanwhile, in the CBD area, supply increased by 2.6% YoY to 7.0 million square meters at the end of the third quarter of 2020. The new supply was located in the Sudirman area with 55,450 square meters and Mas Mansur area totaling 98,536 square meters.

EXHIBIT 15. VACANCY RATE FOR OFFICE SPACE IN NON-CBD JAKARTA (%)



*as of 2Q2020
Source: Cushmand and Wakefield

EXHIBIT 16. VACANCY RATE FOR OFFICE SPACE IN CBD JAKARTA (%)

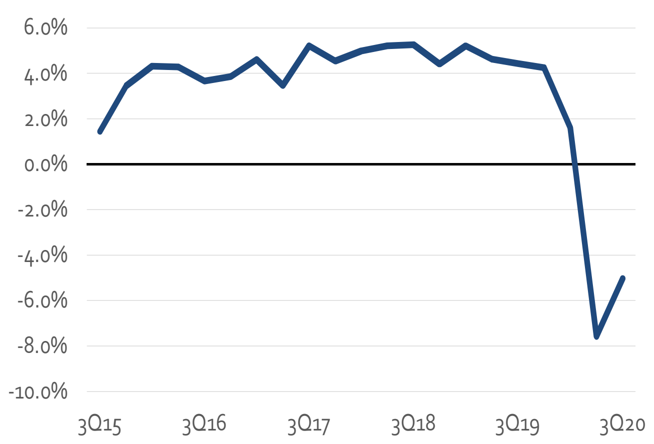


*as of 3Q2020
Source: Cushmand and Wakefield

RETAIL SPACE SEGMENT

The trade sector has been directly affected by the pandemic. The mobility of trade and footfall decreases following the restriction on outdoor activities. Consumers reduce their shopping activity to retail centers. Overall, this sector contracted over the last two quarters by -7.6% YoY in Q2 and -5.0% YoY in Q3 2020.

EXHIBIT 17. TRADE SECTOR GROWTH (% YOY)



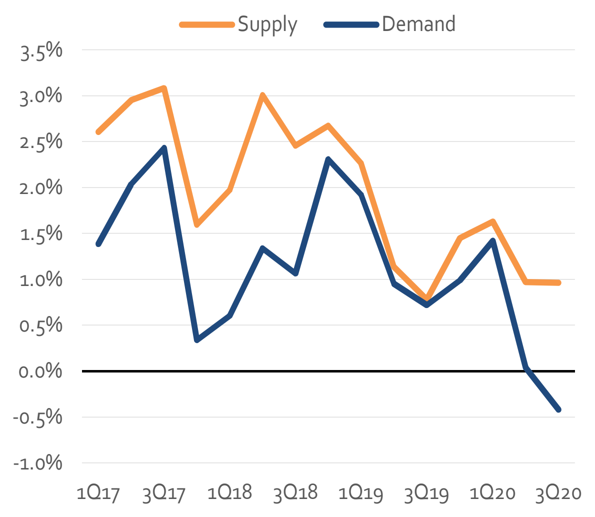
Source: Central Bureau of Statistics

The plunge in trading activity led to the subdued demand for retail space. This was further aggravated by the booming of online retails with people becoming more accustomed to e-commerce, the transition and its effects of which will be more noticeable in the long run. Some retailers combined their online presence with a traditional retail store, especially for stocking certain items.

In Jakarta, the vacancy rate of retail space hiked from 18.9% in 2019 to 22.2% in the third quarter of 2020, arising from a combination of additional new supply and falling demand. In total the supply of retail space reached 4.6 million square meters as of the third quarter of 2020, an increase of about 92,000 square meters compared to the end of the previous year.

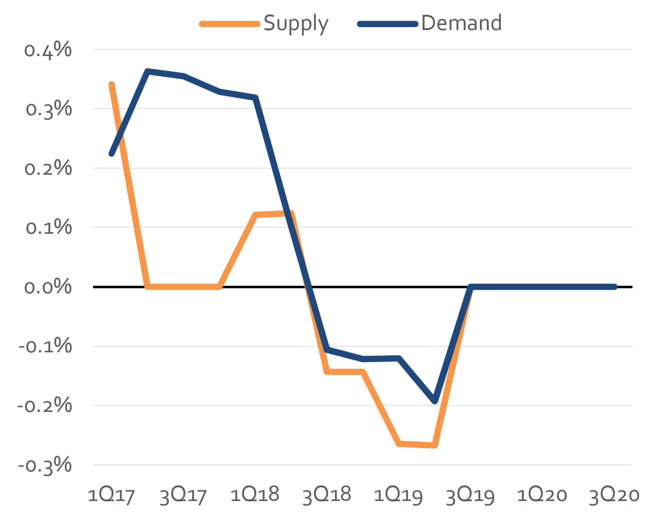
The average rental rates and service charges have remained virtually unchanged for two consecutive quarters, reflecting market schedules since the first large scale social restrictions were imposed in Jakarta. Shopping center owners were willing to offer a relaxation on a case-by-case basis, mostly in the form of reduced rental fee or deferment of payments. Such a situation is expected to continue prevailing in 2021 prior to arriving at a new equilibrium.

EXHIBIT 18. SUPPLY AND DEMAND INDEX FOR LEASED RETAIL SPACE (% YOY)



Source: Bank Indonesia

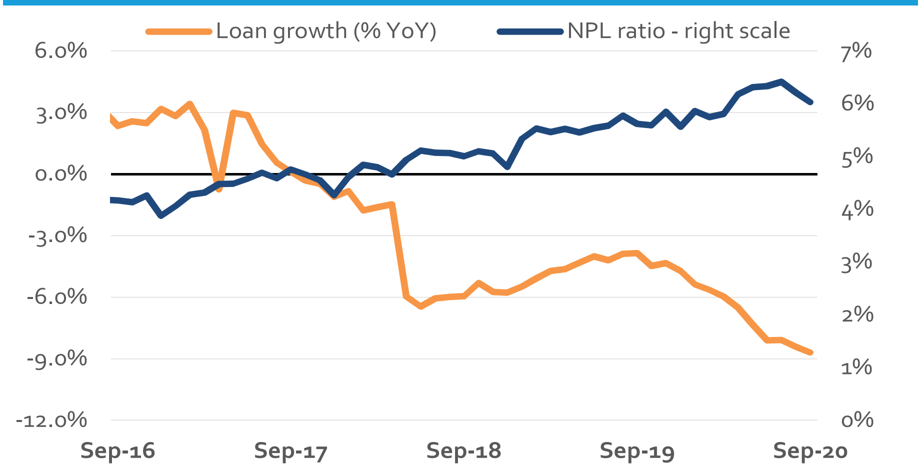
EXHIBIT 19. SUPPLY AND DEMAND INDEX FOR RETAIL SPACE FOR SALE (% YOY)



Source: Bank Indonesia

The weakening demand for retail space was also reflected in commercial bank loans for ownership of shophouses and office houses by the household sector. The outstanding loan fell by 8.7% to IDR22.4 trillion as of September 2020. In fact, negative growth has continued since September 2017 as online channels have grown in popularity.

EXHIBIT 20. COMMERCIAL BANK LOAN FOR OWNERSHIP OF SHOP HOUSES AND OFFICE HOUSES AND ITS NPL RATIO



Source: Bank Indonesia, Financial Services Authority (OJK)

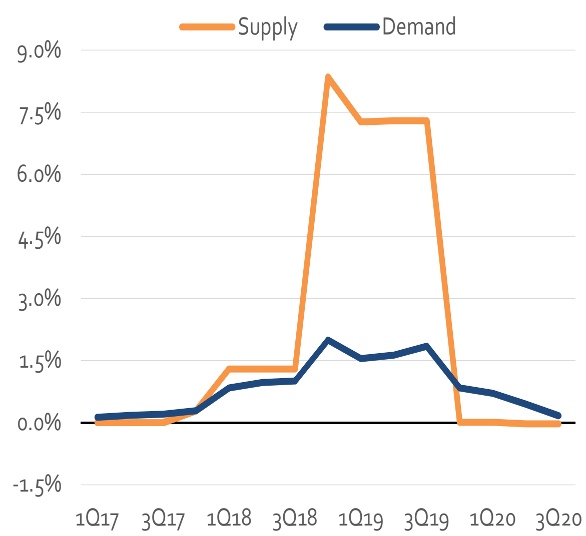
The persistently weak sales have disrupted the cash flows of many retailers, worsening their financial condition and reduced their capacity to repay loans. Bad debt in this segment continued to build up, with the NPL ratio reaching 6.0% as of September 2020 (Exhibit 20).

INDUSTRIAL LAND SEGMENT

As was the case with the retail space, demand for industrial land has been hit hard by the recession. The stagnant transactions and demand have led prices to remaining virtually unchanged since the end of the fourth quarter of 2019. Based on a Bank Indonesia survey, the industrial land price index increased by only 0.7% YoY in Q3 2020, down from 1.7% YoY in the same quarter of the previous year.

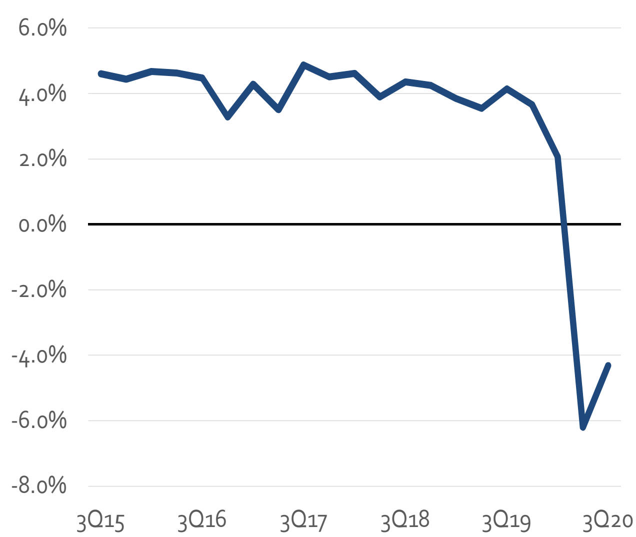
Manufacturing activity contracted during the second and third quarters of 2020. The slump in demand for goods and services brought about excess capacity in the manufacturing sector, rendering the delay in expansion. The pandemic also disrupted logistics and warehousing, which further exacerbated the weakening demand for land, especially in the vicinity of the industrial areas.

EXHIBIT 21. INDUSTRIAL LAND SUPPLY AND DEMAND INDEX (% YOY)



Source: Bank Indonesia

EXHIBIT 22. GROWTH IN INDONESIA MANUFACTURING SECTOR (% YOY)



Source: Central Bureau of Statistics

As of June 2020, there are currently 118 Indonesian industrial estate companies with a land area of approximately 51,861 hectares. In the Jabodetabek area, the supply of industrial land reaches 14,990 hectares or nearly a third of the supply of industrial land in Indonesia, of which around 87.0% are located in the Bekasi, Karawang, Purwakarta, and Serang areas.

The downturn of investment and manufacturing activities has contributed to a decline in sales in critical areas such as Karawang, Purwakarta, and Serang. Apart from the demand for land for the construction of production facilities, the demand for building warehouses, especially related to logistics, including e-commerce, also fell in line with a contraction in the trade sector.

EXHIBIT 23. INDICATORS OF INDUSTRIAL LAND IN JABODETABEK

	Inventory (Ha)	Sales rate (%)			Average land price (IDR 000/Sqm)		
Area	**2020***	**2018**	**2019**	**2020***	**2018**	**2019**	**2020***
Jakarta	1,089	86.5%	86.5%	86.5%	5,750.0	5,750.0	5,750.0
Tangerang	784	67.9%	67.5%	67.5%	2,600.0	2,600.0	2,600.0
Bekasi	5,056	80.7%	76.1%	77.6%	2,624.8	2,465.0	2,492.0
Karawang & Purwakarta	4,885	69.2%	52.1%	49.3%	1,968.8	1,910.0	2,030.0
Serang	3,095	48.4%	48.9%	49.6%	1,675.0	1,675.0	1,675.0
Bogor	80	84.8%	84.8%	84.8%	2,000.0	2,000.0	2,000.0
Total	**14,990**	**70.2%**	**63.3%**	**62.7%**	**2,640.0**	**2,550.0**	**2,590.0**

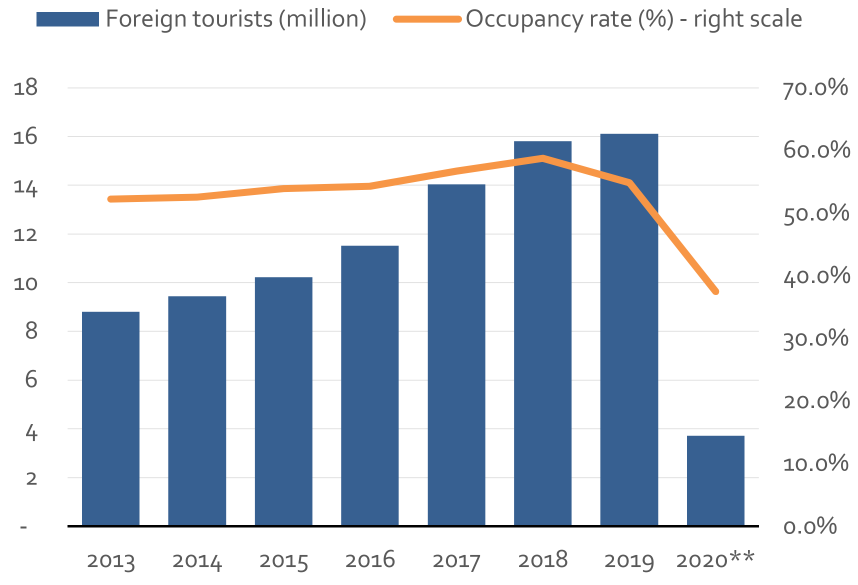
**3Q2020*
Source: Cushman and Wakefield

HOSPITALITY SEGMENT

The growth in the hotel segment plunged, with hotel room rates falling by 28.1% YoY in the third quarter of 2020. The tourism and hospitality sector has been one of the hardest sectors hit by the pandemic due to regional lockdowns and restriction on cross border mobility. The occupancy rate dropped to unprecedentedly low level from 54.8% at the end of 2019 to 37.5% as of October 2020. Several provinces, such as Bali, have seen their tourism activities drop dramatically, resulting in the collapse of the occupancy rate to only 9.5% in October 2020 as against 63.3% in the same period of the previous year.

The number of foreign tourist arrivals fell to only 3.7 million during January-October 2020, a drop of 72.4% compared to the same period last year. Much of the decline was mainly accounted for by a drop of around 77%-80% of tourists from non-Asian regions.

EXHIBIT 24. NUMBER OF FOREIGN TOURISTS AND OCCUPANCY RATES OF STAR HOTELS



Source: Central Bureau of Statistics

Along with the slackening business activities, hotel occupancy rate most notably in the hub of Jakarta also plummeted. Companies mostly conducted work from home and reduced meetings, incentives, conferences, and exhibitions (MICE), in addition to postponing business travels. In Jakarta, the occupancy rate was 44.3% in October 2020, a slight increase as against 38.9% in September, but well below the same month in 2019 (62.7%).

Hotel managers have implemented several strategies to cope with the sluggish occupancy rate. One of them is by offering special prices coupled with extra services and facilities. However, as the pandemic had not been contained, the number of visitors remained low, forcing them to make savings to survive. High operating costs lead to a deterioration of their financial performance. To make matters worse, new cases of Covid-19 accelerated to around 5,000-6,000 towards the end of the year as against less than 4,000 at the end of October 2020, hence further exacerbating the pressure on their performance.

PROPERTY CORPORATE **PROFITS FELL**

In Indonesia, the number of property developers is relatively large with various scales. Several large developers are listed as public companies. Some have accessed to the stock market, debt securities, or both. Of the listed property companies, Lippo Karawaci Tbk, Ciputra Development Tbk, Bumi Serpong Damai Tbk are the three dominant companies in terms of revenue. As of September 2020, the cumulative revenue of those three companies accounted for around 33.8% of the total revenue of 66 property companies listed on the stock exchange (based on trailing 12 months revenue).

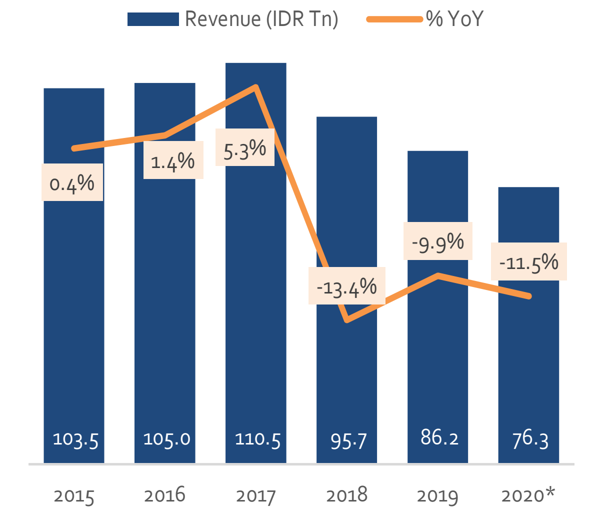
EXHIBIT 25. TOP 10 LISTED PROPERTY COMPANIES BASED ON REVENUE (IDR BILLION)

Company	2019	2020*	Share (%)*	Growth (% YoY)
Lippo Karawaci Tbk.	12,463.5	12,481.9	16.4%	0.1%
Ciputra Development Tbk.	7,608.2	7,192.9	9.4%	-5.5%
Bumi Serpong Damai Tbk.	7,084.9	6,133.8	8.0%	-13.4%
Pakuwon Jati Tbk.	7,202.0	5,008.3	6.6%	-30.5%
Summarecon Agung Tbk.	5,941.6	4,793.3	6.3%	-19.3%
Agung Podomoro Land Tbk.	3,792.5	3,758.2	4.9%	-0.9%
Intiland Development Tbk.	2,736.4	2,946.6	3.9%	7.7%
Kawasan Industri Jababeka Tbk.	2,253.9	2,670.1	3.5%	18.5%
Alam Sutera Realty Tbk.	3,475.7	2,617.8	3.4%	-24.7%
Jaya Real Property Tbk.	2,423.3	2,451.5	3.2%	1.2%
Other	31,247.3	26,262.2	34.4%	0.55
Total	**86,229.3**	**76,316.8**	**100.0%**	**-11.5%**

Note: Data includes 66 public companies
**as of September 2020, trailing 12 months, market share in 2020*
Source: Bloomberg

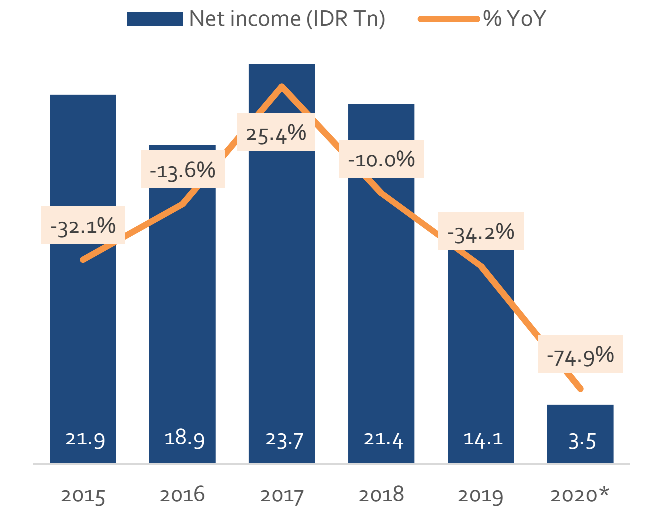
The pandemic has suppressed the sales performance of the listed property companies resulting from subdued demand, worsening their revenue. The pandemic amplified the impact of the decline in income over July-August 2020. According to Bloomberg, the revenue of 66 listed property companies on the Indonesia Stock Exchange fell by 11.5% YoY to IDR76.3 trillion as of September 2020, based on the past 12 consecutive months used for reporting financial figures.

EXHIBIT 26. REVENUE OF LISTED PROPERTY COMPANY



Note: Data includes 66 public companies
**as of September 2020, trailing 12 months*
Source: Bloomberg

EXHIBIT 27. NET INCOME OF LISTED PROPERTY COMPANY



Note: Data includes 66 public companies
**as of September 2020, trailing 12 months*
Source: Bloomberg

Some of the recurring income contributors, such as hotels and shopping centers, have been sluggish due to falling occupancy rates. Also, the regulation of Financial Accounting Standards Statement (PSAK) Number 72 affects the recognition of revenue from contracts with customers. The regulation, effective as from January 1, 2020, stipulates that companies can only recognize sales when handed over. Due to some customers' delay in handovers following restrictions on outdoor activities, their revenue was also adversely affected as reported by the property companies.

From the bottom line, the listed property companies' net profit fell by 74.9% YoY to IDR3.5 trillion as of September 2019 (based on trailing12 months data). The high operating costs caused them to suffer, while high levels of debt further aggravated the financial burden of several companies.