INDONESIA REPORT

CONSTRUCTION MARKET UPDATE

JUNE 2018

RLB Rider Levett Bucknall

MARKET TRENDS

INDONESIA ECONOMY

The lower economic growth figures for the first quarter of 2018 may indicate the Indonesian government may not be able to meet its full year growth target for 2018. Gross domestic product (GDP) in 1Q 2018 slipped to 5.06% year-on-year (y-o-y) from the previous quarter's 5.19% y-o-y, missing the concensus forecast of a 5.18% growth.

Household consumption growth accounts for roughly 60% of the nation's economic GDP. But the consumer sector has been subdued since two years ago and remained below the 5.0% y-o-y barrier, according to Indonesia's Statistics Agency (BPS). Government spending and the country's net export performance in 1Q 2018 have slowed down from a year ago, while imports have surged markedly. Direct investment in 1Q 2018, on the other hand, rose markedly from a year ago. Total direct investment (foreign plus domestic investment) in Indonesia rose 11.8% y-o-y to IDR185.3 trillion in 1Q 2018, showing robust investor appetite and giving rise to optimism that Indonesia's full-year direct investment target of IDR765 trillion can be achieved.

There are also rising pressures on the Indonesian rupiah amid the political trade wars between the United States (US) and China. Recent interest rate rises in the US have pressured the rupiah to its weakest level since January 2016. In addition, Indonesian inflation may rise due to rising crude oil and fuel prices. In the first five months of 1H 2018, the rupiah weakened by more than 5% against the US dollar in the year to date.

Bank Indonesia (BI) raised interest rates twice in May 2018 for the first time since November 2014 to smoothen the rupiah's weakening trend. Market analysts responded by cautioning against hiking rates again in a short span of time as any higher interest rates may further dampen the country's growth, making lending more expensive, which could lead to lower spending by businesses and consumers.

Many major infrastructure projects are expected to become politically charged issues ahead of general elections, which is due around mid-2019. President Widodo's administration has been advocating infrastructure development as one of his core policy objectives and his administration has succeeded in raising infrastructure spending by one full percentage point of the GDP in the past 1.5 years, resulting in better access to electricity and improved roads and ports. However, due to increasing logistical setbacks, the government announced in April 2018 that it plans to drop 14 infrastructure projects from the government's strategic development plan if these developments lack progress or fail to meet certain requirements by 3Q 2019. These 14 projects have an estimated value of IDR 264 trillion.

The government is aiming for a GDP growth of 5.4% y-o-y this year, while the BI's outlook for 2018 is for an expansion of between 5.1% and 5.5% on the back of strong commodity prices and fiscal stimulus policies aimed at attracting investors. The World Bank projects Indonesia's economic outlook to stay positive, albeit measured, for the rest of 2018.

MARKET TRENDS

PROPERTY MARKET

Within the Jakarta market, real estate consultancy Jones Lang LaSalle (JLL) reported healthy demand in the Jakarta office sector. Grade A office demand spiked in 2017 and there was 48,000m^2 worth of Grade A office space taken up during 1Q 2018. However, occupancy levels fell and rental rates continued compressing on the back of new supply. JLL projects vacancy rates will rise further with some stability and improvements in later years as demand begins to match or exceed supply. JLL pointed out technology firms continued to be the driving force behind enquiries in the office market in 1Q 2018. In addition, there is also a trend towards co-working spaces, which is relatively new and growing in Indonesia as well as in Southeast Asia as cowork spaces allows more flexibility for tenants and are more competitively priced.

While no new office developments were completed in the non central business district (CBD) in 1Q 2018, the increase in infrastructure developments has brought about an increase in tenancy demand. TB Simatupang in South Jakarta is the most active commercial cluster, according to JLL's report. This area is expected to keep growing in popularity with office tenants, with support from toll road access, international institutions, and high end residential communities. Another real estate consultancy firm Colliers International, agreed that new Indonesian infrastructure will propel the property markets. In their Asia Market Snapshot 1Q 2018 report, they noted "many developers are betting big on infrastructure by creating Transit Oriented Developments (TODs) in the and near the airport".

Central Jakarta boasts an astounding number of shopping malls, having over 170 of them since four years ago. The current retail market situation in Jakarta's CBD is still dormant due to the government's moratorium on the construction of malls, resulting in relatively flat occupancy and rental rates. Both JLL and Colliers International observed there was no new supply in 1Q 2018 and the supply pipeline is extremely thin with only six shopping centres scheduled for completion between 2018 and 2020, which provides a total retail space of around 325,000m^2. Several prime malls in Jakarta have started to reconfigure their tenancy mix to accomodate changing consumer preferences and increasing e-commerce.

In the residential market, JLL pointed out that luxury prices have stagnated since 2015 and developers are increasingly offering studio apartments that are less then 30m^2. Bank Indonesia (BI) loosened its requirements (Loan-to-Value ratios) for mortgage downpayments in April 2018, which is expected to boost demand for the lower to mid-tiered residential developments where buyers generally tend to rely more on mortgages. Their report further revealed sales performance in 1Q 2018 showed better results in the lower to middle markets than in the luxury segment as smaller units offered greater affordability and lesser tax burdens.

Besides, top-tier buyers' appetite for new luxury apartments remain suppressed by the 20% luxury tax that was imposed on sales of apartments worth IDR10 billion or more. And due to the upcoming general elections in 2019, top-tier buyers remain cautious against economic and political uncertainties.

MARKET TRENDS

CONSTRUCTION INDUSTRY

Despite making progress, the construction sector still face a myriad of financing, political and bureaucratic issues that have left many key projects delayed or cancelled under President Widodo's infrastructure development agenda, which runs until 2019. While the government has already reduced a number of "priority projects" that it aims to launch before 2019, it recently announced in January 2018, IDR105.4 trillion will be spent to build 17 toll road projects under the National Strategic Project by the end of 2019.

Under the third phase (2015-2019) of the National Development Program 2025, the government plans to invest IDR4.8 quadrillion (approx. US$353 billion) on the development of transport and other infrastructure by the end of 2019. The government is also intending to introduce a Limited Concession Scheme (LCS) for private partners to finance large infrastructure construction projects.

As of May 2018, there is a healthy balance of 47.7% of projects that are in the pre-planning and planning stages.

The total foreign direct investment (FDI) rose 12.4% y-o-y to IDR 108.9 trillion in 1Q 2018 (excluding investment in banking and the oil & gas sector). Most popular investment destinations of FDI were the housing, industrial estate and office building sector of Indonesia (with US$1.88 billion worth of investment). The construction sector also benefitted from most of the direct investments received in 1Q 2018 with IDR 13.0 trillion.

According to market expert BMI Research, Indonesia's construction industry is expected to remain healthy with robust growth over the forecast period (2018-2022). The National Development Program 2025 and National Affordable Housing Program is expected to support the industry 's growth.

Source: Statistics Indonesia. f = BMI forecast.

The total construction project pipeline in Indonesia, including all mega projects with a value above US$25 million. currently stands at IDR8.5 quadrillion (approx. US$626 billion, as tracked by the Construction Intelligence Center (CIC). The tracking monitors developments from pre-planning to execution stages.

Barring any unforeseen market conditions, building tender prices in Jakarta are expected to increase from 1.0% to 2.0% in 2018.

LABOUR PRICES

SELECTED OCCUPATIONS	UNIT	AVERAGE LABOUR RATE IDR ('000)			
		3Q 2017	4Q 2017	1Q 2018	2Q 2018p
General Worker	day	100,100	100,100	100,100	100,100
Carpenter (General)	day	150,200	150,200	150,200	150,200
Tiler	m^2	45,100	45,100	45,100	45,100
Concretor	m^3	49,600	49,600	49,600	49,600
Steel Bar Worker	kg	1,900	1,900	1,900	1,900
Formworker	m^2	67,600	67,600	67,600	67,600
Bricklayer	m^2	27,500	27,500	27,500	27,500
Plasterer	m^2	37,600	37,600	37,600	37,600
Painter	m^2	27,500	27,500	27,500	27,500
Glazer	m^2	200,300	200,300	200,300	200,300
Plumber	day	175,200	175,200	175,200	175,200
Electrician	day	175,200	175,200	175,200	175,200

Data Source: Public Works Department Indonesia (Jakarta); Market sources
p: preliminary

CONSTRUCTION MATERIAL PRICES

BUILDING MATERIALS	UNIT	AVERAGE SUPPLY RATE (IDR'000)			
		3Q 2017	4Q 2017	1Q 2018	2Q 2018p
Concreting Sand	m^3	212,300	212,300	212,300	212,300
Stone Aggregate (20mm)	m^3	227,300	227,300	227,300	227,300
Ordinary Portland Cement	bag	66,100	66,100	66,100	66,100
Reinforced Concrete (Grade 30 MPA)	m^3	1,083,500	1,083,500	1,083,500	1,083,500
Reinforced Concrete (Grade 40 MPA)	m^3	1,219,700	1,219,700	1,219,700	1,219,700
High Tensile Steel Bars (10 - 40mm)	kg	9,300	9,300	9,300	9,300
Mild Steel Round Bars (6 - 20mm)	kg	9,300	9,300	9,300	9,300
Structural Steelwork (U-Beam, stanchion)	tonne	11,388,200	11,388,200	11,388,200	11,388,200
Timber Sawn Formwork	m^2	207,300	207,300	207,300	207,300
Clay Bricks (100mm thick brickwall)	m^2	96,100	96,100	96,100	96,100

Data Source: Market Sources
p: preliminary

Exclusions:
• Plant and Equipment • Transport • Wastage • Overheads and Profit • Import Tax • Value Added Tax (VAT)

Notes:
All supply prices stated above are only applicable for building construction projects in Jakarta. Specific cost consultancy should be sought for your particular factual situation prior to utilising this information.

CURRENCY EXCHANGE

CURRENCY	UNITS PER USD			
	3Q 2017	4Q 2017	1Q 2018	2Q 2018p
Indonesian Rupiah (IDR)	13,348	13,309	13,578	13,960

Data Source: Oanda
p: preliminary

JAKARTA CONSTRUCTION PRICES

DEVELOPMENT TYPE	COST PER CFA IDR ('000) / m²			COST PER CFA USD / m²		
OFFICE						
Good Quality, 10 to 25 storeys	6,870	-	8,090	510	-	600
Good Quality, 26 to 40 storeys	8,090	-	10,620	600	-	780
Prestige, 10 to 25 storeys	9,650	-	12,500	710	-	920
Prestige, 26 to 40 storeys	12,070	-	14,500	890	-	1,070
HOTEL (Excluding FF&E)						
Three Star	11,500	-	13,500	850	-	990
Five Star	15,000	-	20,000	1,100	-	1,470
COMMERCIAL						
Retail	6,520	-	8,520	480	-	630
RESIDENTIAL						
Good Quality Condominium	6,430	-	8,500	470	-	630
Luxury Condominium	8,500	-	16,000	630	-	1,180
INDUSTRIAL						
Warehouse	4,650	-	5,680	340	-	420
Factory	5,130	-	6,190	380	-	460
CAR PARK						
Multi Storey	3,460	-	4,450	250	-	330
Basement, outside CBD	4,000	-	6,000	290	-	440
Basement, CBD	5,000	-	7,000	370	-	520

Notes:
Construction Floor Area (CFA) - The area of all building enclosed covered spaces measured to the outside face of external walls including covered basement and above ground car park areas.

All Jakarta construction prices stated herein are as at **1st Quarter 2018**, and include a general allowance for preliminaries, foundation and external works. The price ranges herein are indicative and due consideration should be given to the different specification, size, location and nature of each project when utilising this information. The prices here may not fully reflect the extent of current market forces and tendering conditions.

Exchange Rate Used: USD 1.00 = IDR 13,578

Exclusions:
• Land cost • Legal and professional fees • Development charges • Authority fees • Finance costs
• Site infrastructure work • Diversion of existing services • Models and prototypes • Future cost escalation
• Loose furniture, fittings and works of art • Tenancy work • Resident site staff cost • Import Tax
• Value Added Tax (VAT)

PROFESSIONAL SERVICES

RIDER LEVETT BUCKNALL (RLB) is an independent, global property and construction practice with over 3,500 people in more than 120 offices across Asia, Oceania, Europe, Middle East, Africa and the Americas, serving major local and international clientele.

RLB's global expertise and significant project experience provides comprehensive services and solutions to the development and construction of the built environment, extending to building and civil infrastructure, commercial, residential and hospitality buildings, healthcare, industrial and civil engineering projects.

As a multi-disciplinary group, RLB offers a full range of services required by clients in the property and construction industry, ranging from cost consultancy and quantity surveying, project management, advisory services and market research.

RLB Research's expertise in economic and market studies, industry participation and research publications position us as the choice consultant for advice on construction cost trends and market updates for the regional construction markets.

The extensive range of professional consultancy provided by RLB covers the following core services:

QS and Cost Consultancy	Project Management	Advisory and Research Services
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Value Engineering	Project Management Services	Transaction Review
Cost Planning and Estimating	Development Management	Technical Due Diligence
Tender & Contract Documentation	Contract Administration	Replacement Cost Assessment
Contract Procurement and Delivery	Construction Management	Capital Cost Allowance Assessment
Cost Management	Procurement Management	Building RElifing® Services
Progress and Variation Valuations		Facilities Management Consulting
Post-Contract Services		Litigation Support
Project Risk Management		Risk Mitigation
Financial Reporting and Management		Procurement Strategies
Final Accounts		Construction Market Research
Auditing Services		Industry Trend Analysis
		Cost Escalation and Cost Benchmarking by Sectors

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