Investment Case for Indonesia

Unlocking the Opportunity in Asia’s Next Tiger Economy
Executive Summary

- Indonesia’s remarkable growth story with its resilient economy has made the country one of the most preferred investment destinations. Blessed with abundant natural resources and massive energy resources, paired with a supportive demographic profile, Indonesia has a strong positive outlook.

- With robust domestic consumption acting as the engine for growth, combined with rising investment, the Indonesian economy is expected to perform well over the short to medium term despite a sluggish recovery in the Euro and a weak global economy. Nevertheless, Indonesia’s GDP is projected to grow by around 6.0% - 6.5% in the next three years.

- The Indonesian property market is expected to continue to grow at a healthy level on the back of strong domestic economy. Having been in the relative doldrums for over a decade post the 1997 Asian Financial Crisis, the market is in the midst of robust upswing.

- The Indonesian property market is primarily a domestic play driven by the strength of the local economy. This had helped it weather the economic turbulence relatively well during the 2008 Global Financial Crisis and more recently, the issues in the Eurozone economies.

- The office and industrial property markets have enjoyed a tremendous upturn in the past two years supported by rapid corporate expansion and strong investor confidence. This had triggered significant increase on prices of strata office space and industrial land, as well as office rents, since mid-2011. This trend is forecast to continue over the next two to three years as demand continues to be strong and supply levels are rapidly diminished.

- Along with the increase in purchasing power and spending, local and foreign retailers have aggressively expanded their presence in Indonesia. This has boosted retail demand and triggered more new developments in second-tier cities. In Jakarta, the positive demand growth helped to push rents upward, back to pre-2009 level.

- The landed housing market has grown steadily due to the large domestic demand, supported by a low interest rate environment. Meanwhile, condominium development has started to grow in other major cities outside of Jakarta, triggered by increasing land price and strong potential growth in the leasing market.

- Along with the anticipated increase on property prices in most major cities, yields are expected to compress further across all asset classes.
I. Indonesia in the Global Landscape

Indonesia is home to about 240 million people, making it the 4th most populous country in the world after China, India and the US. Over half of this population lives on Java, the most inhabited island on the planet.

Almost 70% of Indonesia’s population is in the working age group of 15 to 64. Among the working population, the majority are between the age of 20 and 54. People in this age group are vital for the economy due to their strong earning and purchasing power. Together with 27% of the population aged below 15, Indonesia has a huge pool of productive workers to draw upon over the long term.

According to the Central Statistics Bureau, Indonesia’s population has grown at an average of 1.5% p.a. over the past decade and is projected to reach over 270 million by 2025.

Indonesia is the world’s largest archipelagic country with approximately 13,000 islands spanning from Sabang in the west to Merauke in the east. With abundant natural resources, the country is known as the world’s largest producer of palm oil, rubber and cocoa. The natural resources of Indonesia also include a large amount of mineral reserves such as coal, copper, gold, tin, and oil and gas. Within the clean energy sector, the country holds around 40% of the world’s geothermal resources, equivalent to about 27 gigawatts of power generation potential.

These two factors – the demographic make-up and abundant natural resources – form the current foundation of Indonesia’s economy. Over the past few decades, the economy has increasingly been driven by strong domestic consumption and growing investment in manufacturing and export-oriented industries.
Expanding Global Influence

Beginning with national independence in 1945, Indonesia has steadily developed into an integral part of the broader regional and global societies. As a founding member of ASEAN (Association of Southeast Asian Nations), Indonesia plays an important role in supporting peace and increased economic prosperity in the region. Recently, Indonesia is increasingly seen as arguably the most significant developing market in Southeast Asia with approximately US$ 1.121 trillion economy (2011). The international business community has increased its focus on Indonesia; particularly following its emerging relatively unscathed from the 2008 Global Financial Crisis – an achievement that places Indonesia in a category of its own with the exception of the economic behemoths of China and India.

Facts and Views on Indonesia

- Indonesia is Southeast Asia’s only member of the G-20. Due to strong economic and demographic potential, Standard Chartered projects Indonesia will be part of the G-7 by 2040.

- N-11 are Indonesia, Bangladesh, Egypt, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam—identified by Goldman Sachs as the next set of large-population countries that could potentially have a BRIC-like impact. N-11 countries are seen to have promising outlooks for investment and future growth on the back of macroeconomic stability, political maturity, openness of trade and investment policies and the increasing education quality.

- Based on the World Economic Forum survey, Indonesia is ranked 46th in the 2011 Global Competitiveness Index, placing it above other notable countries, including Brazil, India, Mexico, Russia, Vietnam, South Africa, and the Philippines. The country has continued to perform well in this survey as a result of a strong macro-economic environment and improved education.

- Bloomberg in their latest Economic Momentum Index has positioned Indonesia in 7th place in terms of economic growth and stability over the next five years, ranking it ahead of neighbouring countries including the Philippines and Thailand.

Indonesia... The missing BRIC?

The discussion about the inclusion of Indonesia in the BRIC countries has become a hot topic in many international media and forums over the past few years. While the economic size of the country is not comparable to those of China and India, many analysts have positioned Indonesia’s overall performance on par with Brazil and Russia.
II. Key Economic Drivers

Domestic Consumption

Over the past decade domestic consumption has emerged as a critically important engine for the economy, and was particularly vital in supporting Indonesia’s strong economic performance throughout the Global Financial Crisis. This economic activity has supported increased levels of investment and positive income growth: per capita income as measured by Purchasing Power Parity (PPP) has grown from USD 2,260 in 2000 to USD 4,700 in 2011. This represents a stunning increase in the purchasing power of the typical Indonesian household over a single decade.

Apart from this rise in income, consumption was also boosted by a shift in lifestyle towards a higher level of consumerism. This is particularly the case in urban areas such as Jakarta, Surabaya, Bandung, Medan and Makassar.

This rise in income has in turn boosted consumption. Statistics show that household consumption grew by an average of 15% per annum within the past five years. Combined with government expenditure, domestic consumption totalled IDR 4,720 trillion, accounting for some 64% of the total GDP.

Fig 1. GDP Composition by Expenditure

Source: BPS

Fig 2. Value of Exports Relative to Nominal GDP (2010)

Low export dependent, Indonesia is a domestically-driven economy

Source: EIU
Natural Resources and Commodities

Indonesia’s rich natural resources continue to attract both domestic and foreign investors, and this trend is expected to continue over the foreseeable future as demand for commodities is forecast to remain high, particularly from major economies relatively nearby to Indonesia, including China and India. These resources – particularly oil and gas, minerals such as coal, tin, copper, and agricultural products – have become a principle source of income for Indonesia.

Fig 3. Indonesia’s Share of Global Commodity Exports

Investment Growth

Following the Asian Financial Crisis in 1997 which was further worsened by the national crisis in 1998, Indonesia had basically disappeared from the radar screen of international investors due to the economic uncertainty and unstable socio-political environment. However, this view slowly began to change after the hassle-free presidential elections, held in 2004 and in 2009. These events helped demonstrate Indonesia’s increasing stability to the international community.

In recent years, Indonesia has made significant improvements to its regulatory framework in an effort to encourage more new investment. Particularly noteworthy is the 2007 Investment Law, which provides additional clarity and protections to both foreign and local investors.
Other efforts to promote the country as a major investment destination include the opening of more business sectors to foreign investors, various tax incentives for high-labour industries and the on-going review of foreign property ownership law.

Overall, Indonesia is increasingly balancing investment growth with domestic consumption which has been the primary growth driver in recent years, so as to boost the production and manufacturing sector, which created more jobs for the growing labour population.
After 14-years with a junk-rating as a result of the 1997 Asian Financial Crisis that caused a massive devaluation in the Rupiah and many debt defaults, Indonesia finally regained its investment-grade rating. Fitch was the first to raise Indonesia’s long-term and local currency debt rating from BB+ to BBB- last December, while Moody’s gave a fresh stamp of approval by lifting its sovereign credit rating from Ba1 to Baa3 in January 2012.

Main factors supporting the upgrade include Indonesia’s resilience to external economic shocks, policy buffers to address financial vulnerabilities, a healthier banking system and better government financial metrics.

Indonesia is able to prove declining public-debt ratios, strengthened external liquidity and has followed a gradual yet prudent macro-economic policy. In addition, robust growth has been in tandem with the continued health of its external payments position, supported by increasingly large flows of foreign direct investment.

Likely Implications

The investment-grade status will allow Indonesian bonds to be added to benchmark global indices, thus providing more options for risk-averse investors. As such, larger investment inflows are expected. This will reduce financing costs which will assist with the development of the country’s much needed infrastructure developments.

With a stable outlook, Indonesia is now seen as a safe place for investment and the upgrade paves the way to more and potentially bigger funds that are focused specifically on investment grade markets. We expect foreign investment to grow not only in the acquisition of bonds and stocks, but also in fixed assets. The upgrade is also expected to support growth in corporate sector. As more companies expand their business in the country, demand for commercial space will remain strong. The industrial sector will also reap the benefits of the upgrade as more investors will return to the market and be more confident in establishing their production bases in Indonesia.

Finally, the upgrade is expected to create a more productive environment in terms of the amount and quality of foreign developers entering the market. On the other hand, domestic developers can take advantage of competitive financing arrangements and enhanced project partnerships which offer the opportunity to increase expertise and technology.
Infrastructure Development

The current condition of Indonesia’s infrastructure is seen as one of the key challenges to economic development, as such major improvements are required in order to further increase competitiveness and investment activity. To meet this, the Indonesian Government has highlighted infrastructure development as a top priority in their economic development plan.

In May 2011 President Susilo Bambang Yudhoyono unveiled the Master Plan for the Acceleration and Expansion of Indonesia’s Economic Development (MP3EI). The report sets out ambitious targets for Indonesia to become one of the world’s largest economies over the next 15 years.

The plan calls for USD 466 billion in investment, with the transportation and energy sectors being allocated the largest portion of the fund.

The MP3EI also highlights the importance of moving Indonesia’s economy up the value chain in terms of being a centre for innovation and higher-quality manufacturing. By improving education and boosting school and university attendance, as well as expanding the level of domestic manufacturing, Indonesia aims to develop a more high-tech centered economy, exporting more tertiary goods and becoming less reliant on commodities and their associated price fluctuations.

Fig 7. Selected Proposed Infrastructure Projects (MP3EI)

<table>
<thead>
<tr>
<th>No.</th>
<th>Project Type</th>
<th>Project Name</th>
<th>Investment (IDR Trillion)</th>
<th>Target Completion</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inter-island bridge</td>
<td>Sunda Strait Bridge</td>
<td>150,000</td>
<td>2025</td>
<td>Lampung &amp; Banten</td>
</tr>
<tr>
<td>2</td>
<td>New township</td>
<td>Kota Baru Maja</td>
<td>130,000</td>
<td>TBD</td>
<td>Tangerang, Banten</td>
</tr>
<tr>
<td>3</td>
<td>Road</td>
<td>Trans Sumatera (1,580 km)</td>
<td>55,300</td>
<td>TBD</td>
<td>Sumatera</td>
</tr>
<tr>
<td>4</td>
<td>Toll road</td>
<td>Trans Java (619 km)</td>
<td>51,643</td>
<td>2014</td>
<td>Java</td>
</tr>
<tr>
<td>5</td>
<td>Road</td>
<td>Trans papua</td>
<td>50,000</td>
<td>TBD</td>
<td>Papua</td>
</tr>
<tr>
<td>6</td>
<td>Port</td>
<td>Jayapura Port</td>
<td>43,000</td>
<td>2015</td>
<td>Papua</td>
</tr>
<tr>
<td>7</td>
<td>Toll road</td>
<td>Inner city toll road (six new sections)</td>
<td>40,026</td>
<td>2014</td>
<td>DKI Jakarta</td>
</tr>
<tr>
<td>8</td>
<td>Railway</td>
<td>North-South MRT (phase I and II)</td>
<td>40,000</td>
<td>2016</td>
<td>DKI Jakarta</td>
</tr>
<tr>
<td>9</td>
<td>ICT</td>
<td>Increase backbone capacity for Java</td>
<td>32,000</td>
<td>2015</td>
<td>Java</td>
</tr>
<tr>
<td>10</td>
<td>Railway</td>
<td>East-West MRT</td>
<td>30,000</td>
<td>TBD</td>
<td>DKI Jakarta</td>
</tr>
<tr>
<td>11</td>
<td>Energy</td>
<td>New PLTU of Central Java 2,000 MW</td>
<td>26,000</td>
<td>2019</td>
<td>Central Java</td>
</tr>
<tr>
<td>12</td>
<td>Port</td>
<td>Kali Baru utara dock development (Phase 1)</td>
<td>22,000</td>
<td>2019</td>
<td>DKI Jakarta</td>
</tr>
<tr>
<td>13</td>
<td>Railway</td>
<td>Puruk Cahu - Tanjung Isuy (203 km)</td>
<td>20,300</td>
<td>TBD</td>
<td>Kalimantan</td>
</tr>
<tr>
<td>14</td>
<td>ICT</td>
<td>Fiber Optic Coverage &amp; Base Transceiver Station</td>
<td>18,660</td>
<td>2015</td>
<td>Kalimantan</td>
</tr>
<tr>
<td>15</td>
<td>Railway</td>
<td>Muara Enim-Tj. Carat (270 km) &amp; Coal Port</td>
<td>17,000</td>
<td>2015</td>
<td>South Sumatera</td>
</tr>
<tr>
<td>16</td>
<td>Toll road</td>
<td>Probolinggo-Banyuwangi (215 km)</td>
<td>13,960</td>
<td>2019</td>
<td>East Java</td>
</tr>
<tr>
<td>17</td>
<td>Toll road</td>
<td>Panimbang-Serang</td>
<td>12,570</td>
<td>2015</td>
<td>Banjen</td>
</tr>
<tr>
<td>18</td>
<td>Railway</td>
<td>Development of railways in Bali to support tourism</td>
<td>12,100</td>
<td>2017</td>
<td>Bali</td>
</tr>
<tr>
<td>19</td>
<td>Port</td>
<td>Tanjung Priok Port Expansion</td>
<td>11,700</td>
<td>2014</td>
<td>DKI Jakarta</td>
</tr>
<tr>
<td>20</td>
<td>Road</td>
<td>Cileunyi-Sumedang-Dawuan (60.10 km)</td>
<td>10,158</td>
<td>2025</td>
<td>West java</td>
</tr>
</tbody>
</table>
III. Demographic Factors

Population Growth

As a young nation, Indonesia is undergoing a structural shift in demographics. More than half of Indonesia’s 240 million citizens are under the age of 30, which provides ideal conditions to grow a strong and productive labour force – currently growing by approximately 2.3 million persons per year.

The population is increasingly drawn towards urban centres such as Jakarta and Surabaya, and other key investment gateways in Indonesia, offering an accessible supply of both labour and customers.

Rising Affluent

In terms of upward economic mobility, a 2010 report from the World Bank emphasised that Indonesia’s middle class has grown from around 80 million in 2003 to over 130 million in 2010. This rapidly expanding middle class is one of the most critically important factors in supporting the strong economic growth, particularly in connection with the consumer market. Euromonitor expects the number of Indonesian households with USD 5,000 to USD 15,000 in annual income, a rough gauge for middle income, to include more than 58% of Indonesia’s 60 million plus households by 2020.

Looking beyond the middle class population, the number of high net worth individuals (HNWI) in Indonesia has been steadily increasing. According to a September 2011 report released jointly by CLSA and Julius Baer, the number of high net worth individuals (US$1 million or more in assets) in Indonesia will triple to nearly 100,000 by 2015, the fastest increase in Asia, on the back of a strong market and currency appreciation. The vast majority of these individuals reside in Greater Jakarta.
Robust Consumption

Data from Susenas, Indonesia’s national social and economic survey, and the World Bank shows that middle class expenditures (see Fig. 10) have grown from 58% of total expenditures in 2003 to 77% of total expenditures in 2010. As people move into middle income status, their total consumption levels and their expenditure patterns change. For instance, non-food expenditures are likely to rise. A good example of this increase in disposable income can be seen in the strong growth experienced in motorcycle and car sales, with the former up 20% per annum on average over the last 3 years.

The growing middle class will also aid the services sector, where growth is likely to continue to outpace the broader economy, as increasingly high quality and customized services are demanded by a more discerning population.
Rapid Urbanization

One of the most significant trends in Indonesia over the past several decades has been the rapid pace of urbanization. Along with the economic and infrastructure development, districts evolved into urban areas and population. According to the 2011 census, more than 50% of the population now lives in cities, compared to approximately 30% in 1980. This urbanization has been both a result of push factors away from the countryside due to a lack of employment opportunities, and pull factor towards Indonesia’s major cities as industrialization has expanded job opportunities across all sectors of the economy. It is estimated that approximately 70% of Indonesians will live in an urban area by 2030.

Fig 11. Urban Population Growth in Indonesia

Source: EIU, Jones Lang LaSalle Research
At present the majority of urban growth is occurring in cities with a population of more than one million. Among these cities, Jakarta is by far the most popular destination for migrants. Other cities include Surabaya, Bandung, Medan, and Yogyakarta.

Most of these are located in Java (except Medan), contributing to the islands status as one of the most densely populated regions in the world. Indonesia currently has 25 cities with a population in excess of 500,000, where 10 cities have more than one million residents.

**Cities with a population of more than 1 million**

1. Jakarta
2. Surabaya
3. Bandung
4. Medan
5. Bekasi
6. Depok
7. Tangerang
8. Palembang
9. Semarang
10. Makassar

**Cities with a population of more than 500,000 but less than 1 million**

1. South Tangerang
2. Batam
3. Bogor
4. Padang
5. Malang
6. Bandar Lampung
7. Pekanbaru
8. Serang
9. Banjarmasin
10. Tasikmalaya
11. Denpasar
12. Samarinda
13. Cimahi
14. Surakarta
15. Pontianak

Source: BPS
IV. Real Estate Trend in Indonesia

As in many developing countries, real estate in Indonesia is still in the early stage of the development cycle. Sizeable investments and activity were, up to a few years ago, concentrated to major cities such as Jakarta and Surabaya, with other cities having little or zero history of development for more than a decade.

The Indonesian property market is primarily a domestic market, dominated by local players targeting local buyers and investors. Participation of foreign buyers in the market is limited. Current legislation dictates that foreigners are only allowed to buy a residential property built on Hak Pakai (Right of Use) land title.

The landed housing sector is considered the most developed and dominant in the country. It constitutes the largest portion of Indonesia’s major public-listed developers’ business and revenues.

Along with city development and the expansion of modern retailing, on the back of growing consumption and spreading urban lifestyle, retail developments in Indonesia’s major cities has increased significantly over the past five years. In recent years, this trend had also reached smaller or second-tier cities, not only in Java but also in other regions.

Meanwhile, office development and leasing activity is still concentrated to Jakarta. Other cities like Surabaya, Medan and Makassar are now beginning to witness demand for office space. While typical local companies still prefer to have their own office, the leasing market in those cities has relied heavily on foreign and international companies and some major domestic corporations.

Participation of foreign companies or investors in the local property market has been limited. The majority of foreign investors channelled their funds through indirect vehicles, mainly the stock market or by passive equity placement. Only a few foreign players (Singaporean, Hong Kong and Malaysian investors) have participated in the market, concentrating mainly on office and residential developments.

Despite offering a similar standard of quality as that of their regional peers, property prices in Indonesia are relatively cheap. A sluggish market as a result of weak demand and high vacancy in the decade following the 1998 crisis offered little opportunity for prices and rents to grow. However, we are now witnessing a drastic change with an increase in take-up and occupancy levels. Land scarcity, declining stock and developers’ expectations to play catch-up have caused prices to grow quite significantly over the last 20 months.
Landed Housing

Strong demand on the back of population and income growth

With a population of 240 million increasing at an average of 1.1% per annum, demand for housing to accommodate the growing population, house the backlog of 13.6 million nation-wide and satisfy the investment appetite of Indonesia’s rising middle and upper class is simply just enormous.

In Greater Jakarta alone, Jones Lang LaSalle estimates demand for new residential units at 200,000 per annum. Demand in the primary residential market, which is considered the most appealing target for private developers, is approximately 100,000 units per annum.

On the other hand, developers as well as government-linked companies (i.e. state-owned housing company, provincial housing and construction units, etc.) are currently able to supply the market with around 40,000 to 50,000 new units per year. Approximately 75% of this supply is landed housing with the remainder being high-rise condominiums and low cost apartments. At the moment, the current supply being brought to the market on an annual basis represents only half of the potential demand.

In terms of market segment, more than 50% of new units are directed at the mass market, which is currently defined in Greater Jakarta as units with a total price tag below Rp 400 million. Meanwhile, in terms of demand, according to a survey by Bank Indonesia, sales in middle-up and high-end housing projects are strengthening compared to the overall market – increasing by an average of 25% per annum between 2008 and 2010. During this same period, sales within the mass market slowed as stock diminished. This trend is consistent with the overall growth of Greater Jakarta’s middle and upper class in both size and income.

Most of the existing major housing developments in Greater Jakarta are concentrated in suburban districts located south of Jakarta, such as Bogor, Depok, Cibubur, and Bekasi. During the economic boom in the mid-1990s and continuing into the early 2000s, many of Indonesia’s leading developers built township projects in these areas, with housing units as the main component. Over time these original townships have effectively grown into satellite cities of Jakarta and are now a defining aspect of the regional landscape.
However, traffic and accessibility issues due to a lack of infrastructure development, has caused residential demand to increasingly shift to West Jakarta in the past five years. The establishment of the Jakarta Outer Ring Road, which connects this region with South Jakarta and Soekarno-Hatta Airport, has accelerated sales and price growth in particular because of the improved automobile access options.

Major developers such as Sinarmas Land, Alam Sutera and Pembangunan Jaya Group have developed most of their land area in this region. With strong demand and value increasing, they are now diversifying away from residential by creating commercial developments including offices, retail and hospitality facilities.

Aside from suburban housing, developers are also building townhouses within Jakarta. With a substantially higher price, these projects target the top of the market. The typical townhouse or clustered housing development in Greater Jakarta area is a two-story house built on a plot of land ranging from 200 to 600 square meters, with prices ranging from around Rp 1.5 billion up to Rp 10 billion per unit.

Demand in this segment is driven by end-users and local cash-rich investors with a strong investment appetite. As land prices continue to increase, the purchase of a luxury townhouse is considered to be a good investment both in terms of rental income and capital appreciation, with the latter providing growth of approximately 10% to 30% per annum in recent years, depending on the specific location.

### Housing Outlook

With a strong economic outlook and the increasing purchasing power of a typical Indonesian family, the housing market is expected to remain robust for the foreseeable future. The growing middle class in major urban cities will continue to drive housing demand, while the record low interest rate environment will enable additional home buyers to enter the market for the first time.

In Greater Jakarta we expect sales in the primary housing market to grow between 15 – 25% over the next two to three years. Projects located in the west part of Jakarta such as Bintaro, BSD and Tangerang are likely to continue enjoy higher demand during this period, compared to other suburban areas. Accessibility to Jakarta and nearby amenities will become key pull factors to continue to draw buyers to new developments.

Areas such as Cibubur and Depok in the south, and Bekasi in the east, will likely see their popularity increase should the government successfully complete planned infrastructure improvements such as toll roads and public transportation – resulting in increasingly easier access to these areas.

In terms of housing prices, we expect to see growth ranging from 12% to 18% per annum.
**Strata Condominium**  
*The rise of the affluent and city living*

Jakarta’s first condominium project was introduced in the late 1980s and this type of development began to gain widespread popularity during the mid-1990s, coinciding with the economic boom that occurred from 1994 to 1997.

In the period from 2004 to present, the condominium market has enjoyed strong sales on the back of built-up demand, increasingly low interest rates, strong investment appetite and interest among wealthy cash-rich buyers that wish to have an easily maintained residence located in the heart of Jakarta for either personal or investment use.

In terms of sales over the past decade, the market peaked in 2005 with sales declining between 2006 and 2008 as a result of increasing lending costs.

In 2009, condominium sales were impacted by the GFC as both developers and buyers appeared to take a ‘wait and see’ approach. Following Indonesia’s successful emergence from the GFC and an interest rate cut, sales picked up in 2010 and 2011, with growth also being supported by Jakarta’s traffic problems resulting in affluent Jakartans wishing to live closer to their workplace.

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**Fig 12. Annual Sales of New Condominiums in Jakarta**

*Strong take-up on the back of low interest rate environment*

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>12,000</td>
</tr>
<tr>
<td>2005</td>
<td>11,500</td>
</tr>
<tr>
<td>2006</td>
<td>10,500</td>
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<tr>
<td>2007</td>
<td>9,500</td>
</tr>
<tr>
<td>2008</td>
<td>8,500</td>
</tr>
<tr>
<td>2009</td>
<td>4,500</td>
</tr>
<tr>
<td>2010</td>
<td>6,000</td>
</tr>
<tr>
<td>2011</td>
<td>11,000</td>
</tr>
<tr>
<td>2012</td>
<td>12,000</td>
</tr>
</tbody>
</table>

*Source: Jones Lang LaSalle Research*
Jones Lang LaSalle segments Jakarta condominium developments into four categories, primarily based on the asking price per square meter:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Price per sqm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower-middle</td>
<td>Below Rp 12 million</td>
</tr>
<tr>
<td>Middle</td>
<td>Rp 12-15 million</td>
</tr>
<tr>
<td>Middle-up</td>
<td>Rp 15-20 million</td>
</tr>
<tr>
<td>Upper</td>
<td>Rp 20-25 million</td>
</tr>
<tr>
<td>High-end</td>
<td>Above Rp 25 million</td>
</tr>
</tbody>
</table>

The Jakarta condominium market currently includes a total stock of approximately 77,000. Future proposed supply through to the end of 2014 is estimated at approximately 27,000 units, with more than 65% of this inventory having already been sold off-plan. Since January, developers have successfully sold around 4,500 condominium units in Jakarta and the majority of year-to-date sales took place in middle and middle-up projects with price tag of Rp 12-20 million per square meter.

Condominium Outlook

The record-low interest rates continue to support activity in the condominium market, although many purchases at all levels of the residential market continue to be completed on a cash-only basis.

Sales are projected to increase further over the short to medium term as the market begins to include more and more investors turned end-users that now wish to maintain a residence for their personal use in the heart of the city, in addition to maintaining investment properties.

Condominium prices increased on average by 9% in the first half of 2012, with upper-market projects experiencing 14% growth in prices over the same period. In the medium term expect to see moderate price growth of between 15-20% per annum when averaged across the entire market. Quality developments in highly desirable locations, such as close or near to Jakarta’s CBD, will likely continue to outperform the market.
Office

Robust tenant expansion, flight-to-quality and tight supply

While most regional markets suffered a substantial decline in office demand from 2008 through to today, the Jakarta office market has continued to record positive and healthy demand levels throughout this period. After experiencing a slowdown in 2009, office demand in Jakarta quickly bounced back in 2010.

In Jakarta’s CBD, commonly known as the Golden Triangle, 2010 revealed the strongest demand of the entire decade, with around 237,000 square meters of office space absorbed by the market. During 2011 net absorption in Jakarta CBD was approximately 425,000 square meters, surpassing the record high set in 2010.

The Jakarta CBD market currently consists of approximately 4.2 million sqm with approximately 90% occupancy rate. This year, CBD absorption is forecast to reach around 400,000 sqm.

Fig 13. Net Office Demand in Jakarta CBD

Market absorption: a V-shape recovery

Source: Jones Lang LaSalle Research
The growing economy and increase in business activity has directly supported the office market, as domestic companies expand and international companies look to enter the market for the first time. The most active and dominant sectors include banking, insurance, securities, along with telecommunication companies. Combined with enquiries from oil and gas, mining and related companies, these types of tenants represent roughly 75% of the overall demand in the market.

Furthermore, the current market condition is characterized by a ‘flight-to-quality’ trend. Based on our survey, between 2009 and 2011, approximately 80% of the total net absorption within Jakarta’s CBD was for Grade A buildings, 20% for Grade B while demand in the Grade C market has been relatively stagnant. The average occupancy among Grade A buildings in Jakarta CBD currently stands in excess of 98%.

**Fig 14. CBD Office Occupancy by Grade**

*Tight availability in Grade A buildings boosted rents in the past one year*

Source: Jones Lang LaSalle Research
Office Outlook

While demand for commercial space in Jakarta CBD has grown at a tremendous pace over the past several years, new supply has remained relatively limited. As we anticipate demand to remain strong over the next 2-3 years, tight supply will boost the occupancy much higher.

By end-June 2012, the occupancy rate for commercial space stood in excess of 90% overall and more than 98% for Grade A space. As a result of the limited space and strong demand, we expect to see moderate double-digit rental growth through 2014, on the back of 20% growth (in overall market) and 32% growth (in Grade A buildings) in rents during 2011.

As highlighted above, the occupancy outlook is particularly promising for the Grade A market. With less than 300,000 sqm of new additional supply anticipated between now and 2014, the occupancy rate for Grade A space is projected to reach nearly 100%.

With limited available space – including virtually no space in many landmark CBD buildings – and surging demand, landlords are naturally expected to be more aggressive in increasing their rents. Rents in the CBD are expected to grow by approximately 20% to 25% per annum over the next 2 years.

Fig 15. Supply-Demand Projection in Grade A CBD Office Market

Source: Jones Lang LaSalle Research
Shopping Mall
The changing face of retail landscape in Jakarta

The first modern shopping malls appeared in Jakarta about 30 years ago, and much more recently in the handful of other Indonesian cities where they currently exist. Initially, these shopping malls were built to cater to the needs of the affluent, providing a place to purchase fashionable clothing and accessories.

There was a substantial growth in shopping malls immediately prior to and during the 1995 to 1996 economic boom, but the 1997 Asian Financial Crisis and the May 1998 Indonesian Riots deeply shattered what had been the prevailing economic and socio-political settings of Indonesia. People cut spending drastically as they attempted to survive and recover from the crisis. Yet this difficult time in Indonesia’s recent history ultimately created the foundation for a stronger, larger, and more inclusive economy to emerge.

Following Indonesia’s emergence from the 1997 Asian Financial Crisis, with the banking industry nearly destroyed, banks were reluctant to provide financing to property, and this led to the emergence of more modest strata-title trade center development, with ITC (by Duta Pertiwi) being the best known brand of these. In these trade centers, stores are owned by their operators and there was ultimately an oversupply delivered to the market, with certain properties remaining largely empty.

Later on, F&B concepts were generally viewed as a critically important aspect of any successful shopping centre in terms of attracting steady crowds and revenue. Over the past five years, F&B tenants have frequently outperformed the market and emerged as a primary driver of traffic to shopping malls. More and more landlords, in Jakarta and other major cities, continue to adopt a similar F&B lifestyle focus in their respective shopping malls.

Lifestyle centres have continued to grow in popularity, although the entire retail market suffered a setback over the period from 2005 to 2009 which began with an increase in fuel price and concluded with Indonesia’s emergence from the Global Financial Crisis. As occupancy has gradually recovered, rents have increased, and this moderate growth is expected to continue.

In 2002, a new retail centre concept was introduced to Jakarta with the opening of Cilandak Town Square. The project, filled with cafés and restaurants, received a positive response and soon became popular amongst Jakarta’s young trendsetters and retailers. The success of Cilandak Town Square prompted other developers to build retail centres with similar concept, and also began a new era of upscale F&B domination of the market.

Fig 16. Prime Retail Rental Growth

![Prime Retail Rental Growth Chart]
Current construction in the retail market increasingly focuses on mixed use developments that combine aspects of residential, commercial and retail into a single setting. These large multi-use developments have become home to a variety of international brands that are newly arrived in the Indonesian market including H&M, Uniqlo, and Galleries Lafayette. These multi-use developments, both within the CBD and in the suburbs, are expected to remain strong as Jakarta’s traffic issues result in consumers eager to combine as many activities as possible into a single destination, while remain as close as possible to either their home or office depending on the day of the week and time.

Retail Outlook

After experiencing a slowdown in 2009, the retail market in Jakarta had gradually recovered. The continued growth of the Indonesian middle class and the successful transition towards malls being able to generate revenue from a variety of tenants, such as restaurant offerings, has led developers to aggressively expand in the country’s fastest growing cities.

Foreign brands are keen to expand their presence in a bid to capture increasing demand. International brands established in Indonesia for quite some time include Guess, GAP, Starbucks, Burger King, Mango, Zara, TopShop, Giordano, and Louis Vuitton. In the past few years, several upscale brands expanded into the Indonesian market including Hermes, Bang & Olufsen, YSL, Raoul, Cartier, and also middle-up brands such as DVF, Dorothy Perkins and Muji.

Indonesia’s retail market, with its huge consumer base, has attracted also a variety of international major chain stores, including hypermarkets, department stores and operators of convenience stores – the presence of the latter is particularly ubiquitous throughout Jakarta. Some notable examples would include Lotte Mart, Lawson, 7-Eleven and Galleries Lafayette.

Recently the market saw an exceptional pre-commitment from Lotte Department Store in Ciputra World Jakarta, an upscale multi-use development currently under construction (Lotte has leased the entire retail area, consisting of approximately 78,000 sqm). This is an example of the increasing appetite of foreign firms that wish to pursue opportunities within Indonesia. In short, we expect the market to continue grow upward at a faster pace than in the last three years.
Industrial Estate
Riding the wave of economic growth

For the decade following the onset of 1997 Asian Financial Crisis, Indonesia’s industrial sector suffered a deep and long recession as foreign investors were reluctant to invest. A poor image coupled with bad publicity about Indonesia continued to deter industrialists and manufacturers to expand their factories in the country.

Demand in Greater Jakarta grew at a very slow pace and the prices of industrial land were flat throughout this period. With very limited market activity, supply growth was also minimal. Most developers focused on maintaining the occupancy and operation of their estates rather than launching new projects.

Yet, things began to change from 2008 onwards. Following the successful 2009 election, investor confidence increased – as did inquiries for industrial land. In 2010, net absorption in industrial estates in the Greater Jakarta jumped to around 420 hectares, more than 150% increase over 2009.

Fig 17. Greater Jakarta Industrial Land Absorption

Massive enquiry from factory expansion and new establishment boost demand growth

Source: Jones Lang LaSalle Research
Increasing numbers of enquiries from both existing and newly established manufacturing and logistics companies have continued to boost absorption. More than 750 hectares of industrial land was taken up in the Greater Jakarta area during 2011. The increase in industrial activity over the past couple of years has been driven mainly by consumer-based industries, such as FMCG, pharmaceuticals as well as automobile and related sectors. Demand from these sectors accounted for about 80% of overall demand in the industrial land market.

Enquiries regarding the construction of new factories in Greater Jakarta came primarily from Asia, including Japan and South Korea. From Japan, large manufacturers such as Daihatsu, Honda, Nippon Steel and Stanley Electric have reportedly acquired significant land for factory expansions and new factory developments. Meanwhile, South Korean industry leaders that have recently committed to investment in Indonesia include Hankook, Posco Steel and Daewoo.

Other than Asia, enquiries also came from the US and France. Recently, L’Oreal announced that it will build its largest factory in the world in Indonesia. In addition, Nestle and P&G are planning to build new factories in Greater Jakarta, expanding production capacity to cater to the growing domestic demand.

Recently investors from India and China have also begun to tap into the Indonesian market quite aggressively. Most Indian investors, including such large corporations as Nalco, Adani and Essar, are focussing on the commodities, steel, and infrastructure businesses. Meanwhile, Chinese investors such as ZTE, Geely, CIC and MCC are exploring businesses in the telecommunications, automotive, and mining sectors. Recently, an industrial estate in Cikarang allocated a 200-hectare special zone (named KITIC) specifically for Chinese manufacturers.

**Industrial Outlook**

The industrial market, particularly in the Greater Jakarta area, is likely to continue enjoying rapid growth in demand over the short to medium term. This is largely a combination of the following factors:

- **Domestic Market**: local and international organizations wishing to enter or expand their presence in the market to take advantage of increasing domestic consumption.

- **International Market**: local and international companies manufacturing for export and wishing to take advantage of the relatively cheap cost of labour compared to markets like China where labour is increasingly expensive.

- **New Regulation**: a government regulation issued in 2009 requires new manufacturing facilities to be located within professionally managed estates, as opposed to more flexible arrangements that would have been achievable in the past.

Average industrial land prices in Greater Jakarta grew by 15% to 35% per annum over the past two years, with prices currently ranging from Rp. 600,000 to Rp. 1,300,000 per square meter. The strongest price growth has been recorded at Cikarang and Cikampek.
Fig 18. Jakarta Property Clock

Fig 19. Medium Term (20-month) Outlook

<table>
<thead>
<tr>
<th>Sector</th>
<th>Demand</th>
<th>Price / Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Jakarta Landed Housing</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Jakarta CBD Office</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Jakarta Rental shopping mall</td>
<td>↑↑</td>
<td>↑↑</td>
</tr>
<tr>
<td>Jakarta Rental apartment</td>
<td>↑↑</td>
<td>↑↑</td>
</tr>
<tr>
<td>Jakarta condominium</td>
<td>↑↑</td>
<td>↑↑</td>
</tr>
<tr>
<td>Greater Jakarta Industrial</td>
<td>↑</td>
<td>↑</td>
</tr>
</tbody>
</table>
Major Indonesian Developers

The evolution of the Indonesian property market cannot be separated from the role of major developers and their new ideas and concepts. What follows are brief profiles of the 10 largest publically listed developers, as measured by market capitalization and a few select others – all play an important role in the market.

**Lippo Karawaci**
First established in 1990 as a township developer, Lippo Karawaci has evolved into a large-scale property developer. In addition, through the amalgamation of its various healthcare and hospitality businesses in 2004, it is now considered to be the most diversified property company in Indonesia.

**Alam Sutera Realty**
Alam Sutera was established in 1994 and the development activities have primarily focused on their 700 hectare holding in Serpong area. Alam Sutera’s core assets have become more accessible following the opening of the Jakarta – Merak toll road in September 2009.

**Summarecon Agung**
Summarecon was established in 1975 and is closely associated with the development of Kelapa Gading, one of the city’s most affluent residential districts. Following the success of Kelapa Gading, the group expanded to Serpong and also Bekasi area.

**Pakuwon Jati**
Pakuwon was established in 1989 and is originally noted for its developments in Surabaya, Indonesia’s second largest city. Their portfolio now includes a variety of major developments in Jakarta including Gandaria City and Kota Kasablanka.

**Sentul City**
Established in 1993, the company is primarily focused upon the development of a 3,000 hectare site located nearby to Bogor and within commuting distance of Jakarta. Today the company operates in a strategic partnership with Bakrieland.

**Jaya Real Property**
Also known as Bintaro Jaya, the company was established in 1979 and has land holdings and developments throughout all key areas of Jakarta. The signature development and namesake is their 2,000 hectare Bintaro community.

**Agung Podomoro Land**
Before their listing in 2010, the group was well known as a condominium developer with its Mediterranean brand focusing on the mid-end market segment. Recently, APL has begun to focus on superblock and mixed-use development.

**Ciputra**
As a pioneer in township developments, Ciputra has now expanded their business outside of Indonesia, to include other Asian countries. Recently, the group has begun to tap into second tier cities throughout Java and other major islands.

**Sinarmas Land**
Formed in 2009 when Duta Pertiwi merged with Bumi Serpong Damai (BSD), the new entity is part of the larger Sinarmas Group. While Duta Pertiwi is known as the first developer to capitalize on strata title retail projects, with the well-known ITC brand, BSD is considered to be one of the leading players in the development of townships.

**Bakrieland**
Bakrieland is the property company of Bakrie Group. They have two main divisions: city developments (through Bakrie Swasakti Utama developer of Rasuna Epicentrum) and residential developments (through Bogor Nirwana Residence, Sentul Nirwana, etc.).
### Fig 21. Indonesia’s Public-listed Developers by Market Cap

<table>
<thead>
<tr>
<th>No</th>
<th>Property Developer</th>
<th>Ticker</th>
<th>28-May-12 Market Cap (in billion IDR)</th>
<th>% of total</th>
<th>1Q 2012 Revenue (in billion IDR)</th>
<th>EBITDA (in billion IDR)</th>
<th>Land Bank (Ha)</th>
<th>Land Bank Value (in billion IDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PT. Bumi Serpong Damai, Tbk</td>
<td>BSDE</td>
<td>21,521</td>
<td>13.6%</td>
<td>800</td>
<td>202</td>
<td>3,750</td>
<td>4,701</td>
</tr>
<tr>
<td>2</td>
<td>PT. Lippo Karawaci, Tbk</td>
<td>LPKR</td>
<td>18,462</td>
<td>11.7%</td>
<td>4,189</td>
<td>985</td>
<td>855</td>
<td>988</td>
</tr>
<tr>
<td>3</td>
<td>PT. Alam Sutera Realty, Tbk</td>
<td>ASRI</td>
<td>10,807</td>
<td>6.8%</td>
<td>675</td>
<td>372</td>
<td>806</td>
<td>1,165</td>
</tr>
<tr>
<td>4</td>
<td>PT. Summarecon Agung, Tbk</td>
<td>SMRA</td>
<td>10,516</td>
<td>6.7%</td>
<td>814</td>
<td>210</td>
<td>n/a</td>
<td>534</td>
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<tr>
<td>5</td>
<td>PT. Ciputra Development, Tbk</td>
<td>CTRA</td>
<td>10,464</td>
<td>6.6%</td>
<td>552</td>
<td>158</td>
<td>1,283</td>
<td>2,152</td>
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<tr>
<td>6</td>
<td>PT. Pakuwon Jati, Tbk</td>
<td>PWON</td>
<td>9,198</td>
<td>5.8%</td>
<td>494</td>
<td>204</td>
<td>277</td>
<td>274</td>
</tr>
<tr>
<td>7</td>
<td>PT. Sentul City, Tbk</td>
<td>BKSL</td>
<td>8,163</td>
<td>5.2%</td>
<td>156</td>
<td>75</td>
<td>685</td>
<td>833</td>
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<tr>
<td>8</td>
<td>PT. Jaya Real Property, Tbk</td>
<td>JRPT</td>
<td>7,975</td>
<td>5.0%</td>
<td>235</td>
<td>89</td>
<td>1,434</td>
<td>1,761</td>
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<tr>
<td>9</td>
<td>PT. Agung Podomoro Land, Tbk</td>
<td>APLN</td>
<td>6,970</td>
<td>4.4%</td>
<td>3,824</td>
<td>888</td>
<td>n/a</td>
<td>n/a</td>
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<tr>
<td>10</td>
<td>PT. Duta Pertwi, Tbk</td>
<td>DUTI</td>
<td>4,579</td>
<td>2.9%</td>
<td>239</td>
<td>81</td>
<td>1,184</td>
<td>2,503</td>
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<tr>
<td>11</td>
<td>PT. Bakrieland Development, Tbk</td>
<td>ELTY</td>
<td>4,483</td>
<td>2.8%</td>
<td>425</td>
<td>57</td>
<td>13,993</td>
<td>5,159</td>
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<tr>
<td>12</td>
<td>PT. Ciputra Property, Tbk</td>
<td>CTRP</td>
<td>4,305</td>
<td>2.7%</td>
<td>97</td>
<td>40</td>
<td>7</td>
<td>799</td>
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<tr>
<td>13</td>
<td>PT. Jababeka, Tbk</td>
<td>KIJA</td>
<td>4,162</td>
<td>2.6%</td>
<td>252</td>
<td>60</td>
<td>3,231</td>
<td>2,737</td>
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<tr>
<td>14</td>
<td>PT. Bekasi Fajar Industrial Estate, Tbk</td>
<td>BEST</td>
<td>3,857</td>
<td>2.4%</td>
<td>256</td>
<td>119</td>
<td>617</td>
<td>1,350</td>
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<tr>
<td>15</td>
<td>PT. Ciputra Surya, Tbk</td>
<td>CTRS</td>
<td>3,760</td>
<td>2.4%</td>
<td>212</td>
<td>64</td>
<td>773</td>
<td>899</td>
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<tr>
<td>16</td>
<td>PT. Intiland Development, Tbk</td>
<td>DILD</td>
<td>3,576</td>
<td>2.3%</td>
<td>244</td>
<td>62</td>
<td>2,026</td>
<td>2,487</td>
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<tr>
<td>17</td>
<td>PT. Metropolitan Land, Tbk</td>
<td>MTLA</td>
<td>3,032</td>
<td>1.9%</td>
<td>152</td>
<td>52</td>
<td>n/a</td>
<td>119</td>
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<tr>
<td>18</td>
<td>PT. Modernland Realty, Tbk</td>
<td>MDLN</td>
<td>2,851</td>
<td>1.8%</td>
<td>295</td>
<td>85</td>
<td>373</td>
<td>939</td>
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<tr>
<td>19</td>
<td>PT. Metropolitan Kentjana, Tbk</td>
<td>MKPI</td>
<td>2,845</td>
<td>1.8%</td>
<td>214</td>
<td>124</td>
<td>62</td>
<td>418</td>
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<tr>
<td>20</td>
<td>PT. Lippo Cikarang, Tbk</td>
<td>LPCK</td>
<td>2,384</td>
<td>1.5%</td>
<td>254</td>
<td>103</td>
<td>416</td>
<td>427</td>
</tr>
</tbody>
</table>

Total Market Cap: 157,940

Source: Company Report, Jones Lang LaSalle Research
V. Investment Opportunities in Indonesia

Indonesia currently boasts a wide variety of investment opportunities. The specific type that foreign funds and developers generally focus on is usually determined by weighing a combination of factors, including sector of specialization (residential, commercial, etc.), location, budget and desire to partner with local developers.

There are a limited number of foreign developers currently present in the market. They generally focus on gateway cities such as Jakarta, Surabaya and Bali. Indonesia is a geographically large country and other specific opportunities can be found in so-called secondary cities, although understanding the potential of each region can be a challenging task.

Maturing Markets
Jakarta, Bandung, Surabaya, Bali, Medan, Makasar

Jakarta
Among the maturing cities, Jakarta easily ranks first. As Indonesia’s capital city and centre of economic and business activity, Jakarta holds the highest concentration of the high net worth individuals (HNWIs). The centralisation of economic development within the capital city during Soeharto era had created an extensive gap between Jakarta and other regions.

Bandung
Bandung benefits from its close proximity to Jakarta. The city is further supported by the opening of Cipularang toll road that connects the two cities, reducing the travelling time between them to only two hours. The new toll road results in many of Jakarta’s affluent citizens spending their holidays in Bandung, thereby boosting retail demand in the city.

Surabaya
Indonesia’s second largest city is a hub for commercial trading and industry. Surabaya is also home to many influential entrepreneurs and family owned conglomerates.

Bali
World renowned and by far Indonesia’s most popular holiday destination for international visitors, Bali has become increasingly popular with Jakartans – both weekend tourists and developers investing in hotels and integrated resorts.

Medan
With a strong commercial trading sector, Medan is known as the busiest city in Sumatra. Its close proximity to Singapore provides an important international link.

Makassar
Makassar is known as the busiest port town in the eastern Indonesia, which rich with natural resources. Recently, a consortium of Kalla and Para Group announced a plan to build Asia’s largest commercial tourism complex in Makassar.
Developing Markets
Bodetabek, Semarang, Yogyakarta, Solo, Palembang, Pekanbaru, Balikpapan, Samarinda, Batam, Manado

Bogor, Depok, Tangerang, Bekasi
The strong middle-class growth in Bodetabek (i.e. Bogor, Depok, Tangerang and Bekasi) has supported the development of the property sector in particular as consumers have become more affluent in these areas.

Solo, Semarang, Palembang
Solo and Semarang are located in Central Java, while Palembang is in South Sumatra. In terms of economic development, they share quite similar characteristics such as strengths in the trading, hotel and restaurant sectors.

Pekanbaru, Balikpapan, Samarinda
These cities are dominated by industries that utilise natural resources such as oil and gas, mining and agriculture. With a large expatriate population, these cities have the potential to accommodate a strong leasing market as well.

Yogyakarta
As major tourist destinations in the country, the economic growth of Yogyakarta has been primarily supported by the hotel, restaurant and other leisure-related sectors.

Batam
Batam is located less than 20 km off of Singapore’s south coast. The island is a major industrial zone and is part of a Special Economic Zone whereby there are no tariffs and VAT for items shipped between Singapore and Batam.

Manado
Manado is the second largest city in Sulawesi, after Makassar. Due to the various ecotourism and leisure activities on offer, the city attracts a large volume of international visitors.

Emerging Markets
Padang, Bandar Lampung, Malang, Banjarmasin, Tasikmalaya, Cimahi, Pontianak
These cities have a smaller but quickly emerging middle class. Corporate activity in most of these cities is still limited to local businesses, except for Pontianak and a few other provincial capital cities that have a higher level of exposure to national and foreign businesses. There are numerous opportunities to benefit from “first-mover advantage,” but specific studies may be required to gather information and define a given opportunity in detail.
### Fig 22. Key Sector(s) in Selected Major Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Economic Base</th>
<th>Housing</th>
<th>Office</th>
<th>Condo</th>
<th>Retail</th>
<th>Hotel</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Jakarta</td>
<td>Business &amp; services</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Surabaya</td>
<td>Business &amp; trading</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Medan</td>
<td>Trading</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Bandung</td>
<td>Business &amp; holiday</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Bali</td>
<td>Holiday destination</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Balikpapan</td>
<td>Trading (oil &amp; gas)</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Makassar</td>
<td>Trading</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Yogyakarta</td>
<td>Cultural &amp; holiday</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>Palembang</td>
<td>Trading</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Batam</td>
<td>Trading &amp; industrial</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Pekanbaru</td>
<td>Trading (oil &amp; gas)</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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<td>Trading</td>
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<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle Research
Doing Business in Indonesia

Company Structures

Many international developers and investment groups interested to pursue opportunities in the market are aware of specific opportunities, but at the outset often lack the specific local knowledge in terms of the basic foundations of the regulatory environment and the common deal structures.

In terms of setting up a local corporate entity in Indonesia, there are generally two options:

Representative Office
A representative office can be created to conduct marketing, market research, or function as buying and/or selling agents, however these offices are not allowed to conduct direct sales and cannot issue commercial invoices. Regional representative offices, which are classified as those offices serving two or more other ASEAN nations, can also be established in Indonesia. The regional representative office is limited to more of a liaison role and is restricted from participating in many business transactions.

Limited Liability Company
Legally known as Perusahaan Terbatas (PT), this can be 100% foreign owned, 100% Indonesian owned, or jointly owned by foreign and local shareholders. Under Indonesian law, a foreign-owned company has the same treatment as a local company licensed to conduct the same business.

Jones Lang LaSalle recommends to seek advice from a professional legal firm to assist with proper company registration to ensure compliance and avoid potential disorder and unnecessary costs with the current regulatory requirements.

Foreign investors or companies registered in Indonesia as a PT (company) has the same rights and treatment to conduct business like any other local companies.

A foreign-owned PT (company) is allowed to operate and execute all kinds of business transactions and activities, which protected by the law.

According to the law, a foreign-owned PT (company) in real estate business is allowed to do asset transactions (i.e. buying and selling), own or hold assets, develop and manage their own properties.
Land Title

There is often confusion in the marketplace concerning the basics of Indonesian land title. However, there are various title options available to foreign-owned entities and foreign individuals under Indonesian law.

Customary Land
Indonesian law recognizes customary land, defined as land that is not registered with the national land agency. Rights are generally transmitted by inheritance and these rights can be converted to a certified title issued by the national land agency. Customary land is generally not a consideration for developers.

Certified Land
Certified Land is land that is registered at the national land office and there are five forms of title recognized under this 1960 law that forms the foundation of modern day title law in Indonesia.

1. Right of Ownership (Hak Milik)
This is an absolute or free-hold form of ownership in common law jurisdiction. This form of title can only be held by Indonesian individuals and can be sold, transferred, bequeathed or hypothecated.

2. Right of Exploitation (Hak Guna Usaha)
This is a right to cultivate or exploit state-owned land for agricultural, fishery, or husbandry purposes. This form of title is valid for an initial period of 35-years but can be extended for an additional 25-years with an option for further renewal. This land right can be mortgaged, and can be held by Indonesian citizens or entities as well as foreign joint-venture companies.

3. Right to Build (Hak Guna Bangunan)
This is by far the most common form of title used by developers and this grants the holder the right to build on the land. This title is granted for an initial period of 30-years and may be extended for 20-years with the possibility of further extension. This title is not held by private individuals but may be held by both Indonesian organizations and foreign joint-venture entities. Land developed with such a title can be sold, exchanged, transferred, bequeathed or mortgaged.

4. Right of Use (Hak Pakai)
This form of title provides the right to use land or a structure that sits upon the land for a specific period of time for a specific purpose such as habitation, social activities or work activities. This form of title is valid for a maximum of 25 years but extendable for another period of 20 years or occasionally for an indefinite period as may be stated in the grant or agreement. This form of title is the most accommodating in terms of who may hold it: Indonesian citizens, foreign citizens resident in Indonesia, foreign embassies, and representative offices of foreign entities. The Hak Pakai rights generally cannot be sold, exchanged, or transferred unless explicitly provided for in the grant / agreement.

5. Right to Operate (Hak Pengelolaan)
This form of title allows the holder the right to operate state-owned land for a specific purpose as approved by the authorities. This title is only granted to government institutions or state-owned companies for an unspecified period and can be transferred to a third party in the form of HGB or Hak Pakai.
Overview of Title Option for Foreign Corporate Entities

In summary Hak Guna Usaha (Right of Exploitation) and Hak Guna Bangunan (Right to Build) are the titles available to be held by companies registered under Indonesian law, including foreign-owned companies and foreign joint-venture companies, but excluding representative offices. Therefore such companies may purchase land and buildings for a variety of commercial and residential uses.

Meanwhile, the most preferable way for foreign individuals to hold land in Indonesia for investment use is generally considered to be via the creation of a limited liability company (or Perseroan Terbatas / PT) registered under Indonesian law, and this entity may be 100% foreign owner or a joint venture.

Fig 23. Common Land Titles and Availability to Various Owners

<table>
<thead>
<tr>
<th></th>
<th>Hak Milik</th>
<th>HGB</th>
<th>Hak Pakai</th>
<th>HGU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesian individual</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Foreign individual</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
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<tr>
<td>Indonesian company</td>
<td></td>
<td>X</td>
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<td>X</td>
</tr>
<tr>
<td>Foreign company*</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Foundation</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Embassy</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

*) registered in Indonesia

Source: Jones Lang LaSalle Research
VI. Challenges and Risks

From a property investment perspective, Indonesia remains relatively inexpensive by regional and global standards. Yet in recent years, investment returns on both annuity income and capital appreciation have been sustained at among the highest anywhere in the region.

While certain foreign developers have successfully operated in the Indonesian market for many years, and this segment will continue to grow, foreign entities are likely to encounter certain challenges within Indonesia’s operating environment that would not be as commonplace in more developed markets – the below must all be accounted for in determining appropriate project advisors, timelines, and costs.

Market Transparency

Although this has been improving, the local operating environment is substantially more opaque compared to more developed markets in terms of the availability and reliability of information. The move towards regional authority following the fall of Suharto in 1998 has created overlapping regulations and the bureaucracy can therefore be slow and complicated to properly deal with, which is necessary for permitting and a variety of other matters.

In Jones Lang LaSalle’s 2012 Global Real Estate Transparency Index, Indonesia falls within the semi-transparent category and ranks 38th out of nearly 100 markets in terms of the overall transparency. This places Indonesia ahead of neighbors such as Thailand but behind countries such as Russia and Brazil.

Regulatory Risk

Indonesia can often represent a challenging regulatory environment particularly for foreign entities that are not familiar with regulations. Laws related to investment and real estate development can change frequently, and although in recent years these have generally been viewed as positive changes, it is important to stay up to date. This can be challenging both because of language barriers and understanding the flow of information within Indonesia. Corruption is an ongoing issue in Indonesia – the country currently ranks 100 out of 183 countries evaluated by Transparency International, the global corruption watchdog, for their 2011 annual report.
Infrastructure

Municipal government in major cities such as Jakarta have been unable to keep pace with population growth in both size and wealth and private-sector development. The resulting limited infrastructure has a profound impact on access to any given location.

Developing Relationships

Relationships are the life-blood of effective business anywhere, and this is particularly the case in a reasonably semi-transparent market such as Indonesia. Foreign business entities in the property development space as well as any other sector of the economy will need to give consideration to how they will arrange introductions to begin forming the professional relationships that will play an important role in their success.
More than ever before, your success depends on the quality of your decisions.

As the global leader in real estate services and money management, Jones Lang LaSalle is positioned to partner with you to provide the quality advice needed for making quality decisions.

The world’s best real estate intelligence and knowledge base puts our clients in the best position to make the right decisions.

About Jones Lang LaSalle Research

Jones Lang LaSalle Research is a multi-disciplinary professional group with core competencies in economics, real estate market analysis and forecasting, locational analysis and investment strategy. The group is able to draw on an extensive range and depth of experience from the Firm’s network of offices, operating across more than 100 key markets worldwide. Our aim is to provide high-level analytical research services to assist practical decision-making in all aspects of real estate.

The Asia Pacific Research Group monitors rentals, capital values, demand and supply factors, vacancy rates, investment yields, leasing and investment activity, and other significant trends and government policies relating to all sectors of the property market including office, retail, residential, industrial and hotels. We deliver a range of global, regional and local publications as well as research-based consultancy services.

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Anton is responsible for the research department for Jones Lang LaSalle across Indonesia. He produces regular reports and oversees the maintenance of the internal property database. He has worked on various assignments covering market and feasibility studies, development consultancy, asset disposal strategy and project review and analysis. Anton is an Architect and Engineer by trade, which offers him a perspective from a development and project management aspect.

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Fitrah Avianti joined Jones Lang LaSalle in 2010 and assumed the position of Assistant Manager in the Research department. Aside from maintaining the firm’s database for all property sectors, Fitrah also contributes to consultancy assignments and to the production of local and regional research reports such as the quarterly Jakarta Property Market Review, Asia Pacific Property Digest and REIS publications.
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Advance publications are topic-driven white papers from Jones Lang LaSalle that focus on key real estate and business issues.

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