



## Property Report Singapore-Malaysia-Indonesia - September 2008 - Market Focus

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### Bali - continued growth in a cash market

Following an almost decade long run of bad luck, Bali is now enjoying an unprecedented period of stability. So will the island's property industry be finally allowed to thrive?

Regularly voted the world's best island by the likes of Condé Nast Traveler, Bali has rebounded several times in the past few years from threats to its tourism industry. Its nascent property industry has also survived and thrived through hard times and has been given a major vote of confidence in the past year or so with the likes of St Regis, the Banyan Tree, The W Group and Ferragamo all planning mixed use resort and property developments on the island. Alongside them, boutique developers and local brands continue to thrive.

"This year has been our best year ever for sales," Vic Faulkner, Group Managing Director of developer Karma Royal Group, says. "Partly driven by the ongoing boom in Bali tourism and partly the higher average price that customers are happy to pay for a quality product."

Headed by Perth based English businessman, John Spence, Karma is one of the most active developers on the island and arguably did much to start the current boom, with its 38 villa Jimbaran development launched in 2004. The company has since followed up with Karma Kandara located on the Bukit and the pioneering east coast development, Karma Agung.

The Bukit peninsula remains the priciest investment destination on the island and has continued to set the pace in recent months. Agents have reported price increases for smaller hillside plots of up to 100 per cent in the last year.

"We've seen some spectacular prices achieved on Bukit beachfront and cliff-top parcels. That's been the story over the past few months," Matthew Georgenson, Sales Director/Partner of Elite Havens, says. "We're seeing stuff that was selling for 200 million Rp an are [1 are = 100 square metre] now up there at 350 million Rp. We've also seen some record prices of standalone villas – over USD 4 million for re-sales and off-plan."

"The Bukit is really improving due to the new infrastructure up there," Neil Power, Managing Director of Xclusive Property, says. "A lot of the paddies in Seminyak and the surrounding areas have been eaten up by development and obviously, that is Bali's rice bowl. Up in the Bukit, it's very dry and barren, so they've lifted a lot of the restrictions on building, upgraded the roads and put water in. Up until a year and a half ago, you'd have to drill to get water. Now the Government has provided it."

However, rocketing land prices in areas like Seminyak and the Bukit have made it harder for smaller developers to make a realistic return, causing a move towards apartment developments or mixed use branded hotel developments, which allow for the most cost effective use of the land. Given that building

costs have shot up 25 per cent in the last year, in line with the rest of the region, this trend towards building up is likely to increase. Individuals who are buying land to build their dream home on a small plot of land and boutique developers are looking increasingly further afield, with areas past Tanah Lot and Candi Dasa becoming popular.

"There's new developments going on in the north and at this stage you can still do your dramatic beachfront villas, because the land is cheaper," Matthew Georgenson says. "But anything before Tanah Lot, it's next to impossible to get the land and the land is so expensive that unless you're a multimillionaire and you just want to build your dream villa, the numbers just don't work."

"It's becoming hard to get houses in the most popular areas now, so buyers have to look further away," Paul Hogguer, Managing Director of Karma Estates, a recently established agency offshoot of Karma Developments, says. "The number one issue with this is the infrastructure and especially the road system. The Government needs to either make developers responsible to help with infrastructure before they sell buildings or they have to do it themselves. It is very important because at the end of the day, a client will always come to the island and say 'how far is it from the airport?' We have a lot of clients who come from Singapore, Hong Kong, Perth and these are people who don't come to Bali once a year for three weeks, but five or six times a year for two to three days. They don't want to spend half a day in the car getting to their holiday villa. So when you start developing far away from the airport, the access has to be good or the development will not be popular."

Mark Tuck, Managing Director of Paradise Property also sees opportunities for raising standards as developers move north.

"Investments outside of the usual areas in south Bali will also open up for more ecologically responsible, sustainable developments, something that is already a must in a development," he says. "We also have a better opportunity to set stronger relationships with the Balinese population in these areas to preserve the Balinese culture, as this is a must if Bali is to maintain its magnetic attraction."

Most observers agree that the sub-prime fallout has had little effect on what is still one of the best values for money markets in Asia. With no finance available, Bali is purely a cash market, which goes some way to insulating it from the international real estate market trends. If any slowdown has occurred, it is in the middle of the market, where buyers are more likely to be using a significant share of their assets to buy a holiday home, rather than the top end which has continued its dramatic rise.

"So far the effects are almost unseen," Mark Tuck says. "We will probably see some effects in terms of lesser buyers from the US and for some time from Europe, but Bali has so far been a cash driven property market with little finance available, this ensures the impact will not be too significant. The happenings on the US market as well as on a smaller scale in Europe also invite people and especially real estate investors to look seriously at other markets, Asia being their first priority, placing Bali in a position to profit from some of these financial movements."

Infrastructure and international finance issues aside, the main issues for buyers on the island are finding quality products and having realistic expectations.

"The biggest challenge for the market is to keep it respectable and fulfill the promises to the customer," Paul Hogguer says. "I worked in Spain for 20 years and I can see here what happened in Spain. Prices go up, construction costs go up and you get to a point where you get a normal European price for a villa here. The industry should be very careful of making too many promises to the customer, especially when they tell them that if they buy here they will become millionaires. Primarily people need to purchase because they love Bali. Of course, they will make a normal, healthy profit, but the industry should not make exaggerated promises."

According to Paradise Property, buyers can still expect healthy returns from quality products who advise that rental returns work best buying villas within complexes, or larger, up-market, individual villas. A good return on these rental-wise will be anything from 6 per cent to as high as 15 per cent.

"Some complexes have actually moved beyond the normal two to three years guaranteed returns to offer pre-signed agreements with travel agents," Mark Tuck says. "This creates credibility in the eyes of purchasers. Capital appreciation is good almost anywhere in Bali, but a key word here is to spend time ensuring the villa is of good quality build, if not you will see trouble. Overall, Bali will be able to offer around 15 to 20 per cent capital appreciation per year."

Demographically, the island continues to maintain a strong appeal to European and Australian buyers as well as Asian based expats.

"Perth buyers have always been a big market for us as it's less expensive for them to fly here than it is for them to fly inland in their own country," Neil Power says. "The Aussie dollar is going a lot further here than it's going there. Expats from Hong Kong, Singapore and Japan make up the second largest group of buyers, followed by European's. Most of our business is re-sales and 80 per cent of buyers are lifestyle investors. They are looking towards renting properties as well though. Only about 20 per cent are looking for pure investment. Most sellers aren't selling to move. They're selling to upgrade to something bigger."

As is the case elsewhere in Asia, the latest players on the scene are deep pocketed Russian buyers.

"The most obvious trend in the past couple of years has been the interest from Russian buyers," Vic Faulkners says. "Bali is now a major holiday destination for Russians and many of them are keen to buy a property on the island. Prices are still very competitive compared to Europe and the other places where they would consider buying a second home. Also, we feel there are more clients looking for top end properties than before. Although the middle market still exists, there are more people prepared to pay top dollar for the best that's available."

The island's biggest issue for now though might well be quality supply keeping up with demand. "Our biggest problem is lack of quality stock," Matthew Georgenson says. "Quality location, build, underlying legals and licensing. All the things that make a development whole in Bali. Once we've got the stock, it sells relatively quickly. We just released Batu Belig residence and three of the five villas sold in the first week for an average price of \$1.1 million."

Provided developers continue to provide quality product, its current period of stability continues and that Bali's infrastructure can keep up with its fast growing tourism industry, the island seems set to retain its top two position for property investors in Asia. Whereas its main competitor, Phuket, might be more accessible and have better infrastructure, Bali's unique appeal may well give it the edge in the long run.

"As a place to live, Bali is unrivalled in Asia and perhaps worldwide," Dominique Gallman, Managing Director of Exotiq Real Estate, says. "It's a vibrant international village on an island that's big enough for residents not to experience the island syndrome. Combine this with a culture that has never felt inferior to the outside world and is therefore tolerant of foreigners and has smartly made use of tourism dollars to keep it alive and growing in strength. Cultural and religious tolerance, diversity, nature and the Asian rhythm of life combine to create that magic mix that continues to attract people since the days of [German artist] Walter Spies and friends."

### **Indonesia Tenure Laws**

Indonesian law recognises different rights on land depending on the status of the titleholder. Only individual Indonesian citizens – not companies – are entitled to own land with freehold status (Hak Milik). Indonesian companies, domestic or foreign owned, as well as foreign individuals are entitled to leaseholds, rights of use, rights of exploitation or rights to build.

In practice, there are four different ways for foreigners to acquire property in Indonesia:

- 1) A popular method is to enter into a legal contract with an Indonesian citizen ('nominee' as they are referred to), whereby he/she holds a freehold title to the property but signs over practical control to the foreigner through power of attorney to sell the land and a loan agreement with the property pledged and secured as collateral.
- 2) Forming a foreign investment company, Penanaman Modal Asing (PMA), is the preferred choice of those intending to operate a business in Bali. A foreigner can fully control a PMA company and the title of

the property will be in the company's name in the form of a right to build - Hak Guna Bangunan (HGB). The HGB expires after 25 years and can be renewed several times. However, there are tax implications to be considered and the Department of Trade will review PMA companies after 25 years so it may be necessary to re-apply for the PMA license.

3) The Government has recently introduced a right of use, Hak Pakai, title for foreigners. This title 'floats' over a freehold title in the name of an Indonesian citizen and is granted for an initial 25 years term. It can be extended up to three times adding up to a total tenure of 100 years. A foreigner is entitled to only one Hak Pakai title for a property not exceeding a certain size. The Hak Pakai is transferable or renewable if sold to another foreigner.

4) Acquiring the leasehold, Hak Sewa, of a property is a straightforward approach for a foreigner. At the expiry of the lease, the property reverts back to the Indonesian owner with all structures built on it. This method is popular in commercial property situations where a return on investment can be achieved within the lease period, but less popular with individuals who wish to make longer-term investments. Lease periods vary and extensions are often agreed in advance; 20 to 30 years is a common lease period in Indonesia.

*Courtesy of Exotiq Real Estate. For more details, visit:  
[www.exotiqrealestate.com/buying\\_property\\_in\\_indonesia.asp](http://www.exotiqrealestate.com/buying_property_in_indonesia.asp).*

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