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Bali's cash property market keeps prices up



A villa in Seminyak, Indonesia (Exotiq Real Estate)

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Homeowners, with no mortgages to pay, tend to sit tight rather than sell

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KUTA, Indonesia: Fueled by rising tourism, the property market on the Indonesian island of Bali has been on a roll in recent years, especially at the high end. And while the worldwide economic

crisis has stalled some of that growth, the cash nature of this Southeast Asian market is offering some protection from the sharp price downturns occurring in the rest of the region.

"In Bali, there are no mortgages available, so everyone who owns a house here has paid cash for it," said Nils Wetterlind, managing director of Tropical Homes, a real estate developer and brokerage based on the island. "This means that, generally speaking, homeowners tend to sit tight rather than panic-sell since they don't have mortgages to pay."

"Prices have not fallen, and are not expected to," he added, "but the number of transactions has ground to a halt in the recent economic turmoil."

Observers say the reaction to the downturn so far has been similar to the effects of the 2002 nightclub bombings, which devastated tourism and stalled property values.

"Prices didn't crash - they just stayed put for about a year before starting to recover in October 2003. Since then, they've been appreciating at an average of 20 percent per year," said Dominique Gallmann, chief executive of Exotiq Real Estate. He added that the market had recovered even more quickly after another series of bombings, in 2005.

"Right now it's very much a buyer's market and you can negotiate. There is more on the market than people are willing to buy," he said. "But though there is an oversupply of properties, prices won't come down."

Still, in recent weeks, local developers with half-built or half-sold developments have started offering discounts, sometimes of about 10 to 15 percent, Wetterlind said.

"There may be the odd apartment building going bust and offering discounts, but I wouldn't go anywhere near those things anyway," he said. "What if the developer goes bust after you bought the apartment? In uncertain times, you must own your own land and house. That way you're safe."

Property development largely has been restricted to the southern part of the island, close to the airport and the capital, Denpasar. In this area, Seminyak remains the priciest property area because of its proximity to Kuta, where most of the island's major tourist services have been established. But in recent years the Bukit Peninsula, even farther to the south, has had a dramatic increase in prices.

"Typically, buying a four-bedroom villa in a good location on an 800-to- 1,000-square-meter [about 8,600-to-10,760-square-foot] plot of land, designed by a proper architect, will set you back by \$500,000 to \$850,000," with a 25-year leasehold, Gallmann said. "The same property with a beach view will set you back two to three times the amount."

In Seminyak, a six-bedroom villa sitting on 2,600 square meters of lush tropical gardens with a 16-meter, or 52-meter, pool but no view is offered for sale at \$1.75 million, while, in Bukit, a four-bedroom villa on 1,900 square meters of land with cliff-front views is priced at \$2.45 million.

Agents say there is a slow move toward new developments on the east coast, where prices are lower. There, a five-bedroom luxury villa on 2,000 square meters of land with oceanfront views is listed for sale at \$1.85 million, and on the southeast coast, a three-bedroom beachfront villa on 1,100 square meters is available for \$1.75 million.

Mark Tuck, managing director of Paradise Property Bali, a real estate developer and property investment company, said he believed the east had potential because it is still beautiful "genuine Bali" and roads are being built that will cut travel to the airport to just an hour.

The recent growth over the last couple of years has actually helped Bali to close the gap of 30 percent to 40 percent that had existed between its prices and those in Phuket, Thailand, long a favorite among foreign buyers

"We'd always been behind Phuket, but now Bali has caught up," said Gallmann, whose company has offices in both places. "Prime beachfront locations in Bali are the same as, if not more expensive, than similar properties in Phuket now," he said, noting that Bali has benefited from the recent political unrest in Thailand. However, he added that Phuket's hilly geography offers more sea views and, therefore, more prime locations than Bali.

Those buying a property on Bali tend to be Asia-based expatriates who want a vacation home or an investment property to rent when it is not in use.

"People are not buying here because of the rental yield, but because they like the life here. It's not just a commercial decision," Gallmann said. "Typically, you can get a yield of 6 to 7 percent net, which is pretty good, but it used to be much higher than this. The good villas used to be able to pay an investor 20 to 25 percent, but the information spread and now more and more villas are coming onto the market."

Would-be buyers should be aware of the country's property regulations. Foreigners are not allowed to own land freehold, a right strictly reserved for Indonesian citizens, so they have three options: a 25-to-30-year, renewable lease; an Indonesian Nominee Power of Attorney Agreement, basically a legal agreement that makes an Indonesian the registered owner; or a right-of-use title valid for 25 years, with the possibility of another several consecutive extensions.

Gallman noted that foreign buyers are not really eager to buy leasehold. "They're only popular in areas like Seminyak, where it is extremely rare to get freehold," he said.