

Indonesia: Rise, float or levitate?

October 2012

A nighttime photograph of a city skyline. Several tall skyscrapers are illuminated with warm yellow and white lights. One prominent building on the right has a distinctive top section with horizontal light bands. A construction crane is visible against the dark sky. The foreground shows a body of water reflecting the city lights.

Foreword

Following our inaugural issue on “Real estate opportunities in Southeast Asia: uncovering hidden potential in a turbulent world,” the current issue focuses on Indonesia – one of the investment hotspots in Asia. Indonesia has not benefited from the real estate boom seen in many countries prior to the global financial crisis. Neither has the country suffered the huge declines when liquidity evaporated and demand shrunk. Now, the real estate market in Indonesia appears to be immune from most of the global economic woes and concerns. Investors are flocking to this country, driven by promising local consumption, urbanization and the young population. In fact, the rapid rise in both portfolio capital and foreign direct investment (FDI) exists not only in the real estate market, but also in many other industries, attracting much interest among private equity players.

Indonesia has a population of more than 238m and is the world’s fourth most populous country. The annual population growth has been 1.5%, which represents “almost one new Singapore every year.” It is the largest economy in Southeast Asia.

The attractiveness of the Indonesian real estate market spans various sectors, from residential to office and retail and even industrial. Given the population growth and urbanization trend, major cities and their respective satellite towns will see new residential development with healthy take-ups of residential units. This trend also fuels new retail demand. Within the office segment, the annual supply of office space has barely met demand over the past few years. With the high incoming FDIs, corporate expansions and new openings, office demand is expected to remain strong.

Impediments and challenges remain. The common frustrations among foreign investors include a convoluted licensing regime, lack of transparency and poor infrastructure. But Indonesia has already come a long way, and between its growing middle class, its extensive natural resources and the fact that it stands to benefit from the opening in 2014 of The Association of Southeast Asian Nations (ASEAN-5) common trade market (which will comprise Indonesia, Singapore, Malaysia, Thailand and Vietnam), it’s clearly a country to watch.

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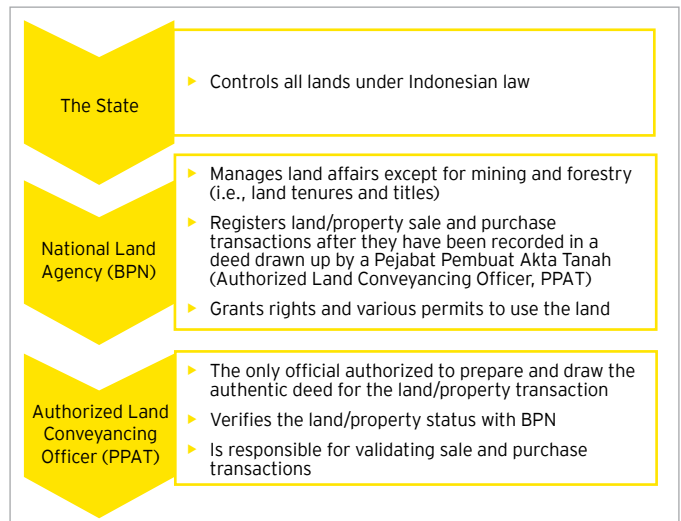
A person with dark hair, seen from the back, wearing a dark suit jacket, is looking out of a large window. The view outside is a high-angle, slightly blurred cityscape with various buildings, streets, and greenery. The lighting is bright, suggesting daytime. The window frame is visible on the left side of the image.

How to invest



Indonesian law is based on a civil law system intermixed with customary law (known as adat) and the Dutch Roman law.

The National Land Agency or Badan Pertanahan Nasional (BPN) administers most real estate matters relating to the Undang Undang Pokok Agraria (UUPA) – the Basic Agrarian Law Act of 1960.



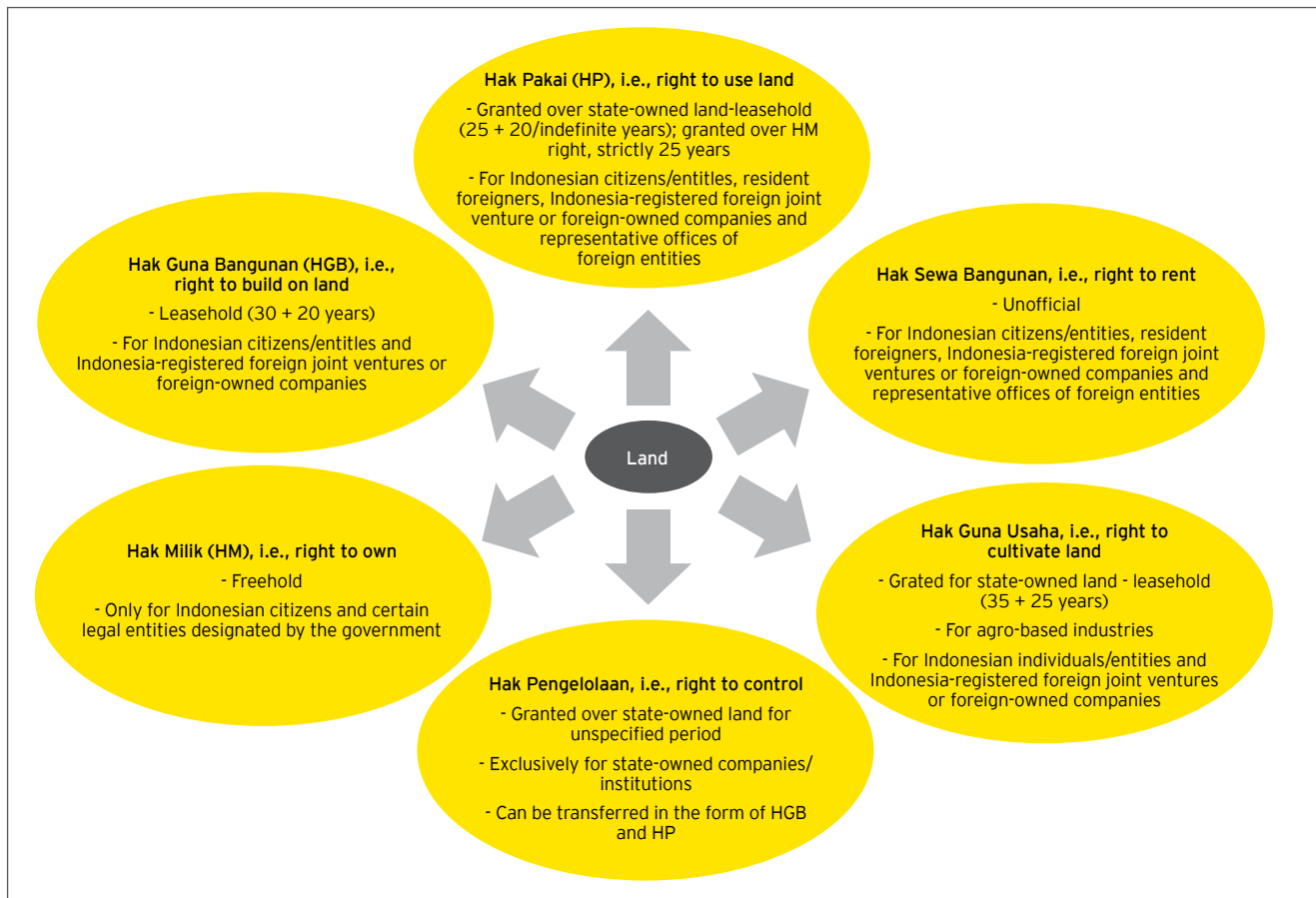
Property tenure and ownership

Land rights can be divided into two categories:

1. Adat land (customary land)
 - ▶ Not registered with the relevant land office (National Land Agency)
 - ▶ Usually held through a traditional joint community ownership structure
 - ▶ Rights held under this category can be converted to certified titles
2. Certified land
 - ▶ Title is governed by the UUPA of 1960 and is registered at the local land office
 - ▶ There are basically six types of land rights held under the UUPA:

- a. Hak Milik (HM), i.e., right to own:
 - ▶ Strongest right of land, equivalent to freehold title in common law jurisdictions
 - ▶ It is not absolute, as UUPA recognizes the “social function” of land, which may be subject to the proposed land acquisition law (to be discussed later)
 - ▶ Right can be passed on as hereditary
 - ▶ Can only be held by Indonesian citizens and certain legal entities designated by the Government, such as state banks, social foundations, agricultural cooperatives and religious bodies
 - ▶ Can be sold, transferred, bequeathed and mortgaged
- b. Hak Guna Bangunan (HGB), i.e., right to build on land:
 - ▶ Right to develop on land owned by others
 - ▶ Granted for a maximum period of 30 years but extendable for another typical 20-year period
 - ▶ Can be held directly by Indonesian entities or foreign joint ventures or foreign-owned companies registered under Indonesian laws
 - ▶ Can be sold, transferred, bequeathed and mortgaged
- c. Hak Pakai (HP), i.e., right of use on land:
 - ▶ Right to use state-owned land or owned by others for a specific purpose as agreed by both parties
 - ▶ Granted over state-owned land for a maximum period of 25 years but extendable for another typical 20-year period and occasionally for an indefinite period as stated in its grant of agreement
 - ▶ Granted over an underlying right to own title. HP is valid for a maximum of 25 years but cannot be extended
 - ▶ Can be held by Indonesian citizens and entities, foreign joint ventures or foreign-owned companies registered under Indonesian laws, resident foreigners or representative offices of foreign entities
 - ▶ Can be sold, transferred and exchanged subject to approval of the land owner
 - ▶ Regarded as less valuable than the right to own and right to build on land for financing purposes
- d. Hak Pengelolaan, i.e., right to control:
 - ▶ Right to use state-owned land for a specific purpose as approved by the authorities
 - ▶ Granted exclusively to state-owned companies or government institutions to determine the use of some plots of land in their region for an unspecified period
 - ▶ Can be transferred to a third party in the form of Hak Guna Bangunan (right to build on land) or Hak Pakai (right to use land)
- e. Hak Sewa Bangunan, i.e., right to rent:
 - ▶ Right to the land owned by another private party for building purposes. The right cannot be registered at the land office and therefore not exist in certificate form
 - ▶ The lease period and transferability are not governed by Indonesian laws and hence are subject to private agreement between parties
 - ▶ Can be held by resident foreigners or representative offices of foreign entities
 - ▶ Cannot be mortgaged
- f. Hak Guna Usaha, i.e., right to cultivate land:
 - ▶ Right to use state-owned land for agricultural, fishery and husbandry purposes
 - ▶ Granted for a maximum period of 35 years, but extendable for another typical 25-year period
 - ▶ Can be held by Indonesian individuals or entities or foreign joint ventures or foreign-owned companies registered under Indonesian laws
 - ▶ Can be transferred and mortgaged

A summary of rights regarding land in Indonesia follows.



Right of ownership relating to multistory residential, commercial or retail buildings (Strata Title Building)

- ▶ Indonesian law recognizes the principle of horizontal separation of ownership, i.e., separate land ownership and building ownership.
- ▶ The right to own relating to strata title buildings has been governed by Undang Undang No. 16 Tahun 1985 Tentang Rumah Susun (Act No. 16 Year 1985 On the Flats). Although the right is individual and separate in nature, it also includes common land, common equipment and common facilities within the project.
- ▶ A multistory building can be built over the land of the right to own (HM), right to build (HGB) and right to use (HP), each of which will decide the legal owners of the right to own relating to strata title buildings. The right to use normally will allow the land to be owned directly by the foreigner or foreign entity.

Types of Right on the underlying land over which a Strata Title Building is built	Legal owners of the Right to Own of Strata Title
Right to own (HM)	<ul style="list-style-type: none"> ▶ Indonesian citizens ▶ Certain legal entities designated by the government
Right to build (HGB) (most popular)	<ul style="list-style-type: none"> ▶ Indonesian citizens and entities ▶ Indonesia-registered foreign joint ventures or foreign-owned companies
Right to use (HP)	<ul style="list-style-type: none"> ▶ Indonesian citizens and entities ▶ Resident foreigners ▶ Indonesia-registered foreign joint ventures or foreign-owned companies ▶ Representative offices of foreign entities

Restriction on foreign property ownership

- ▶ Individual foreigners are not allowed to own land in Indonesia.
- ▶ Individual foreigners who contribute to national development and reside temporarily or permanently in Indonesia are allowed to own the right to rent and the right of use on strata-titled apartment units on land with a right to use title, non-subsidized houses on land with the right to use title or vacant land with the right to use title, on which a house can be built. A longer period (i.e., for 95 years and extendable) is being reviewed by the Government.
- ▶ Similarly, foreign-owned companies and foreign joint ventures that are registered under the current Indonesian laws are not allowed to own land in Indonesia.
- ▶ Foreign-invested companies only enjoy the right to build on land, right to use land, the right to rent and the right to cultivate land. Holding a right to build on land may be considered as good as owning the land on which the building is standing.
- ▶ Foreign companies that are not registered under current Indonesia laws enjoy only the right to use land and the right to rent.

Land acquisition law

- ▶ Land acquisition rules have not been fully developed in Indonesia due to historical informal land ownership, involvement of numerous government agencies and difficulty in determining a fair compensation settlement.
- ▶ The latest land acquisition law, approved by the Parliament in December 2011, allows the Government to acquire land by providing monetary compensation, resettlement or an ownership share in public projects. The value of compensation, to be paid in 30 days, will be determined by an independent appraisal team authorized by the BPN.
- ▶ The law stipulates that all legal proceedings pertinent to land acquisition for a Government-commissioned infrastructure project should be completed within 583 working days. The law also allows a 60-day public consultation period before the land acquisition.
- ▶ At long last, Presidential Decree (PD) No. 71/2012 on the implementation regulation on Law No. 2/2012 on land acquisition law for Public Facilities was signed by President Susilo Bambang Yudhoyono in early August 2012.

Foreign exchange controls

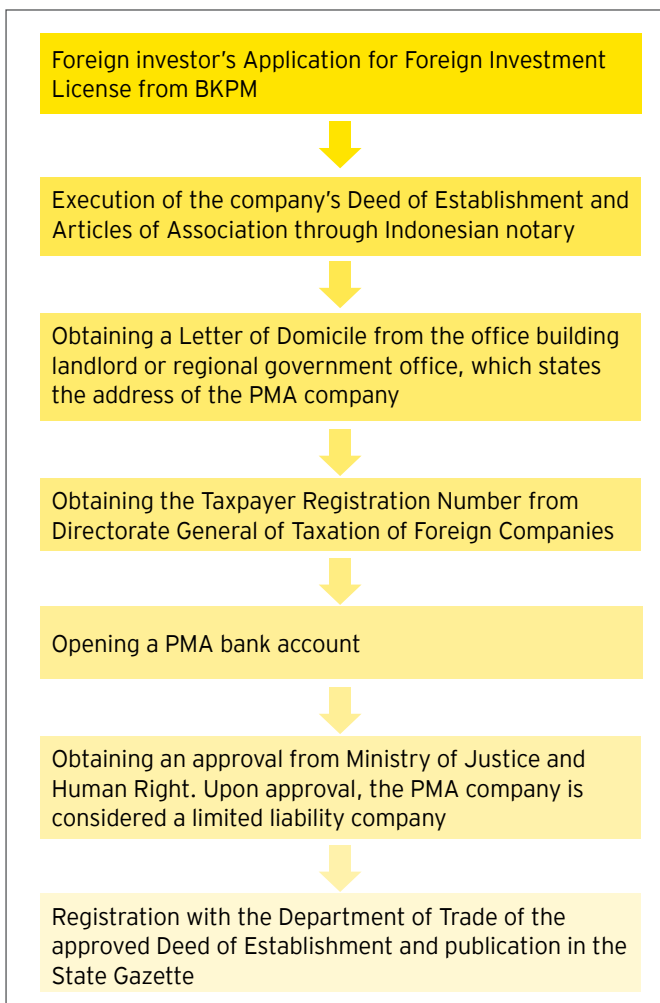
- ▶ Generally, there are no foreign exchange controls. The rupiah (IDR), the local currency, is freely convertible, although fund transfer out of the country of more than IDR100m must obtain the approval of Bank Indonesia.
- ▶ Foreign currency fund transfers to or from foreign countries are not restricted.
- ▶ Offshore loans must be registered with Bank Indonesia with subsequent movements reported monthly in order for the bank to monitor the country's foreign exchange exposure.
- ▶ All after-tax profits, certain costs and compensation (in the event of nationalization) are guaranteed for repatriation (in the currency of the original investment) as stipulated in Investment Law No. 25 of 2007.

Establishing an investment vehicle

1. Modes of entry
 - ▶ Foreign investors are allowed to own up to 100% of the issued capital of an Indonesian company, except for companies in certain strategic industries. Foreign ownership is regulated under the Regulation of the President of the Republic of Indonesia Number 111 of 2007 on the Amendment to Presidential Regulation of the Republic of Indonesia Number 77 of 2007 on List of Business Fields Closed and Open with Conditions to Investment.
 - ▶ Common vehicles are:
 - ▶ Joint venture (either joint venture with an Indonesian party or 100% foreign ownership)
 - ▶ Partnership (typically for local citizens)
 - ▶ Branch of a foreign corporation (mostly for foreign banks and oil and gas companies)
 - ▶ Foreign representative office (typically formed to facilitate transactions between local and foreign buyers and suppliers; not allowed to perform operating activities)
2. Registration and licensing requirements
 - ▶ Badan Koordinasi Penanaman Modal (BKPM), i.e., the Investment Coordination Board, is an investment service agency of the Indonesian Government created with the purpose of effectively implementing the enactment of law on foreign as well as domestic investment. BKPM is a non-departmental government agency serving under and directly responsible to the President of the Republic of Indonesia.

- ▶ Foreign investment is to be conducted by forming a Penanaman Modal Asing company (foreign investment company, or PMA company) in the form of a Perseroan Terbatas (limited liability company, or PT). The PMA company can be set up by way of:
 - ▶ Establishing a new 100% foreign-owned PT
 - ▶ Establishing a new PT by way of joint venture with an Indonesian partner(s)
 - ▶ Purchasing share(s) in an existing PT
- ▶ A foreign investment application will be submitted to BKPM, with the authorized capital investment depending on the type of business activity (minimum about US\$250,000). Once the application is approved, an in-principle business license will be issued, allowing investors up to three years to commence investment in Indonesia.

- ▶ Incorporation of a PMA company requires the submission of various documents, including a deed of establishment, letter of domicile, taxpayer registration number and approval from the Minister of Law and Human Rights. For certain businesses, some other relevant documents from regional authorities are also required, such as an expatriate utilization plan, location permit, building construction permit, nuisance law permit, environment license and customs approval letter.
- ▶ When the PMA company is ready to fully operate and has obtained the relevant supporting licenses, it must obtain an Ijin Usaha Tetap (IUT), i.e., permanent business license) from BKPM, which will be valid for 30 years and extendable.
- ▶ Formalities for establishing a PMA company are as below:



3. Languages in contracts

- ▶ Although there is no regulation that contracts have to be in the Indonesian language, it is recommended that one have contracts in Bahasa Indonesia (or two languages) to prevent any future disputes.

4. Thin capitalization rules

- ▶ In general, any equity and debt structure as part of capital to incorporate the company is acceptable, and interest will generally be deductible, provided the interest payment and other conditions of the debt are determined on an arm's length basis.
- ▶ However, Article 18 of the Income Tax Law gives authority to the Ministry of Finance to establish a certain debt to equity (D/E) ratio.
- ▶ Aside from D/E ratios, under Article 18, the Directorate General of Taxes has the authority to disallow interest deductions in the event of special relationships. A special relationship is considered to exist if two or more entities are under common ownership by a 25%, direct or indirect, equity participation, or if they are under common control through management.

Taxes on possession, operation, acquisition and transfer of real estate

- ▶ Law No. 22 (regional autonomy) and Law No. 25 (financial balancing between central and local government) allow regional governments to issue new regulations on taxes and permits for investment in certain industries.
- ▶ Resident companies are taxed on worldwide income while nonresident companies are taxed only on Indonesia-source income. A foreign company carrying out business activities through a permanent establishment in Indonesia will generally have to assume the same tax obligations as a resident taxpayer. A company is considered resident in Indonesia if it is established or domiciled in Indonesia.
- ▶ Below is the list of key taxes in Indonesia:

"Although Indonesia's tax system can be favorable to foreign investors, it contains some gray areas and 'gaps' that are open to different interpretations. Furthermore, as Indonesia is relying more and more on its tax revenue to finance the State budget, the tax office is often placed under pressure to increase tax collection.

Ernst & Young offers a wealth of in-depth knowledge on the Indonesian tax system. Getting the client's tax structure right from the very start will save a lot of maneuvering in the long run and simplify any future needs that arise."

Ben Koesmoeljana, Tax Service Line Leader, Ernst & Young Indonesia

Type of taxes	Entry	Holding	Exit
Business taxes			
Corporate tax rate on the income of resident and nonresident corporate entities		<ul style="list-style-type: none"> ▶ Flat 25% (there are some tax discounts for small enterprises and resident companies with gross revenue up to IDR50b, where relevant) ▶ 20% for public listed companies with at least 40% of their shares listed ▶ Special tax rates for companies in specific industries (i.e., petroleum, general mining, geothermal) ▶ Certain business sectors (i.e., construction and construction design-supervision-consultancy companies, nonresident international shipping companies and airlines) pay income tax at certain percentage of gross income 	
Land and Building Transfer Duty when obtaining rights to land and buildings	<ul style="list-style-type: none"> ▶ 5% of the transaction value or the assessed value, whichever is higher ▶ Various exemptions apply, including on transfers in connection with a merger or transfers to relatives 		
Tax on selling or transferring land rights and/or buildings			<ul style="list-style-type: none"> ▶ 5% on the sales proceeds or fair value, whichever is higher, as determined by the Government (Nilai Jual Objek Pajak, Tax Object Sale Value)
Capital gains tax derived from the sale of Indonesian assets held by foreigners			<ul style="list-style-type: none"> ▶ 5% on the gross proceeds (subject to tax treaty provisions, where relevant*) ▶ Capital losses are deductible
Tax on net gains from asset revaluations		<ul style="list-style-type: none"> ▶ 10% 	
Tax if the revalued assets are sold or transferred within five years of revaluation			<ul style="list-style-type: none"> ▶ 15% (except assets being transferred to the government or transferred in the course of a tax-free business merger)
Tax on income from the sale of shares at the Indonesian Stock Exchange			<ul style="list-style-type: none"> ▶ 0.1% (of the transaction value) ▶ 0.5% (if the seller is a founding shareholder)
Withholding tax on rental income derived from land and building		<ul style="list-style-type: none"> ▶ 10% of the gross rental value of land and/or building 	

Type of taxes	Entry	Holding	Exit
Withholding taxes (payments made by a resident taxpayer or the Indonesian permanent establishment of a foreign company to a nonresident)			
Withholding tax on dividends		▶ 10%-20% of the gross amount payable (subject to tax treaty provisions, where relevant*)	
Withholding tax on interest		▶ 5% of the transaction value or 0%-15% of the gross amount payable (subject to tax treaty provisions, where relevant*)	
Royalties (includes any charge for and transfer of the use of property or know-how in Indonesia)		▶ 0%-15% of the gross amount payable (subject to tax treaty provisions, where relevant*)	
Indirect taxes			
Notary fees when obtaining rights to land and buildings	▶ About 0.5% to 1.5% of the transaction value		
Annual property tax on taxable land and buildings		<ul style="list-style-type: none"> ▶ 0.1% of the assessed value for land and building worth up to IDR1b and 0.2% of the assessed value for land and buildings worth more than IDR1b ▶ Higher rates apply to certain high-value housing and large estates ▶ 50% tax reduction in the property tax rate for land and buildings for nonprofit activities 	
Value added tax (VAT)	▶ 10% to most goods and services	▶ 8% on rental payment and service charges	▶ 0% for sales/leasing/construction services rendered for low-cost housing
Value added tax (VAT) on raw land			<ul style="list-style-type: none"> ▶ 0% ▶ 8% (if the land is already prepared for development)
Sales tax on luxury goods (one-time)	<ul style="list-style-type: none"> ▶ 10% to 150% on luxury goods at imports (e.g.: automobiles: 15% to 55%; electronics goods: 155%; footwear: 20% to 25%; alcoholic drinks: 40% to 150%) ▶ 20% on the sale price for luxury property purchased from the developer; luxury properties are condominiums with a unit size of more than 150 sqm and landed houses with a building size of more than 400 sqm 		

*Jurisdictions with tax treaties in existence: Algeria, Australia, Austria, Bangladesh, Belgium, Brunei Darussalam, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, Finland, France, Germany, Hungary, India, Iran, Italy, Japan, Jordan, Korea (DPRK), Korea (ROK), Kuwait, Luxembourg, Malaysia, Mexico, Mongolia, Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Qatar, Romania, Russia, Seychelles, Singapore, Slovakia, South Africa, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Syria, Taiwan, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States of America, Uzbekistan, Venezuela and Vietnam

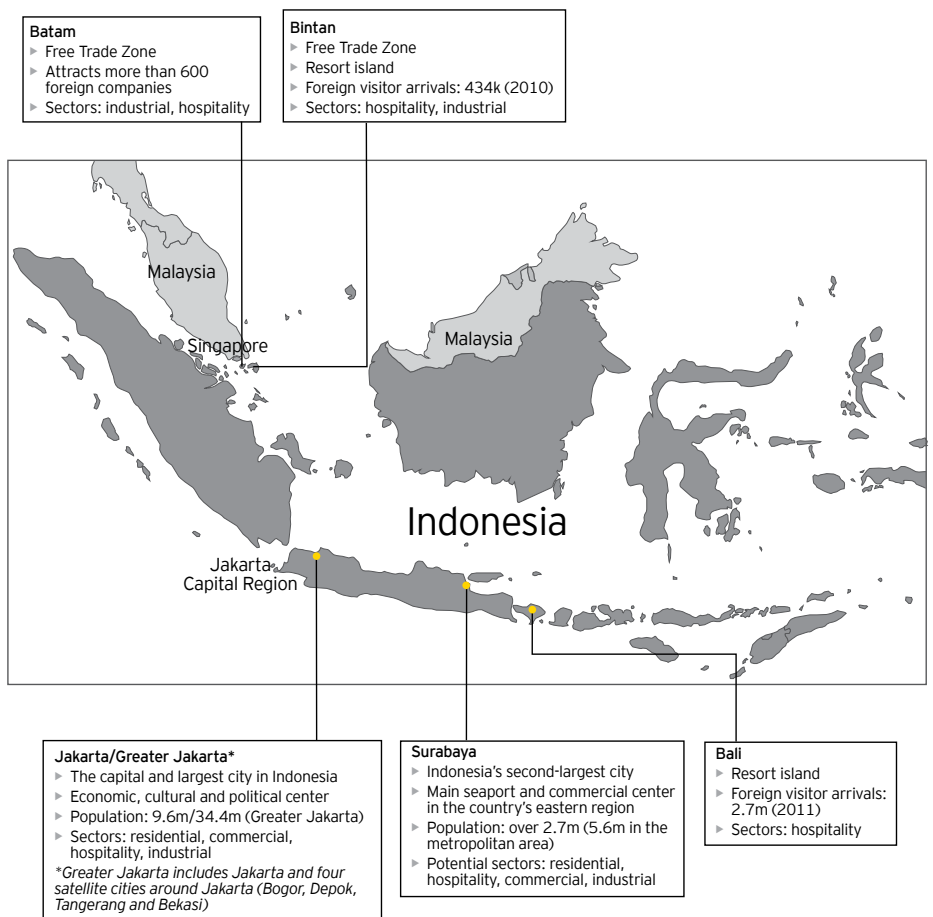


Where and what to invest in Indonesia

Indonesia did not benefit from the Asian real estate boom from 2006 to 2008. Now, the real estate market in Indonesia appears to be immune from most of the global economic woes and concerns. Investors are flocking to this country, driven by promising local consumption, urbanization and a young population. It has resulted in a rapid rise in both portfolio capital as well as FDI. Indonesia has a population of more than 238m and is the world's fourth most populous country in the world. As a result, demand and healthy leasing activities can be seen across all sectors in the real estate market. Due to the earlier pessimism in this country since the 1997 Asian financial crisis to 2009, there were few developments then, and hence, supply today is limited. The combination of these factors is fueling the real estate market at least for the short to medium term.

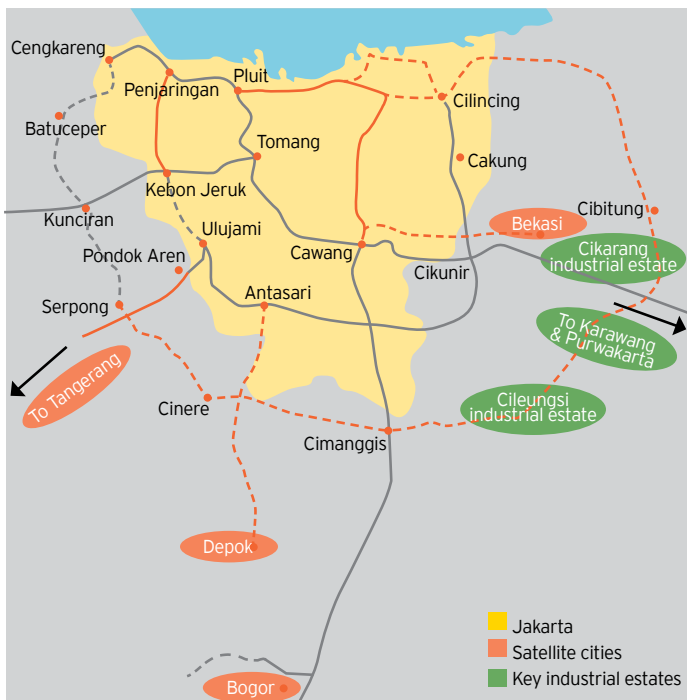
Administratively, there are 33 provinces in Indonesia, each of which has its own legislature and governor. Of these 33 provinces, Jakarta, Yogyakarta, Aceh, Papua and West Papua have special status, with greater legislative privileges and a higher degree of autonomy for historical and religious reasons.

In this issue, we are focusing on four regions and/or cities in Indonesia that have attracted significant foreign investment in real estate: (1) Jakarta, Indonesia's economic, cultural and political center for residential, commercial, hospitality and industrial investment; (2) Bali, the premium tourism island for hospitality investment; and (3-4) Batam/Bintan, a free trade zone for industrial and tourism investment. We also identify Surabaya, the second-biggest city in Indonesia, as a potential destination, as it has already attracted some foreign interest. There are other provincial capital cities in Indonesia with high populations (above 1 million) and potential for selected property investments, such as Bandung, Medan, Palembang and Makassar. However, real estate activities in these cities have been mostly dominated by small local developers and market data is not available.



Jakarta

As part of an archipelago comprising approximately 17,508 islands, Java is the most populous and most developed island in Indonesia. The Indonesian capital city, Jakarta, is located on western Java and is the economic, cultural and political center of the nation. Most major property development activities across various asset types have taken place in Jakarta and Jabodetabek (Greater Jakarta). Greater Jakarta was formed to include Bogor, Depok, Tangerang and Bekasi, the four satellite cities around Jakarta. These markets together hold about 34.4m people (approximately 14% of Indonesia's total population), according to the latest census in 2010.



Jakarta has five regions: Central, North, East, South and West Jakarta. Although the total population of Jakarta itself is about 9.6m, the population can reach up to 14m during the daytime. According to *Euromoney*, GDP per capita in Jakarta is about US\$10,000, versus the GDP per capita in Indonesia as a whole at US\$3,150.

At the heart of Jakarta is the Golden Triangle, which is dominated by major high-rise office, retail, hotel and residential towers, as well as entertainment establishments in various construction stages. Most of these buildings are within integrated developments, providing a vibrant work-live-play environment. Menteng, one of the oldest and most prestigious neighborhoods in Jakarta, lies north of the Golden Triangle. Known for Dutch colonial-era mansions, it is home to the residence of the President of Indonesia, other senior officials, embassies and ambassadors' residences.

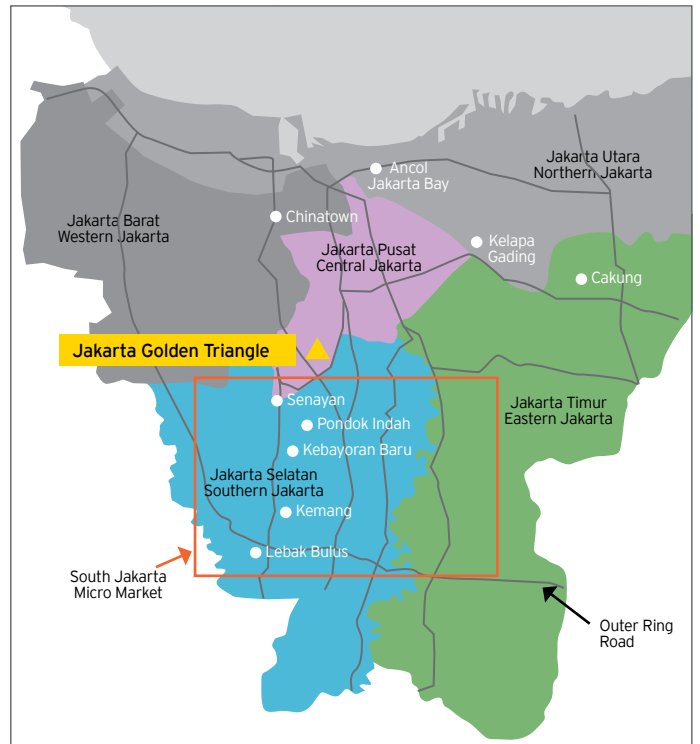


South Jakarta offers additional high-rise city living with proximity to the Golden Triangle. Neighborhoods such as Senayan, Pondok Indah and Kebayoran Baru have well-planned communities, good infrastructure and greenery, complemented by many shopping malls and public amenities. Office buildings in Senayan are particularly popular with oil and gas-related companies. Further south are the Kemang and Lebak Bulus localities, attracting landed housing development for expatriates due to the many international schools nearby. There are high-rise buildings and complementary public amenities. Since early 2010, South Jakarta has witnessed the growth of non-Central Business District (CBD) office developments, thanks to the surrounding established prime residential developments, accessibility to the Outer Ring Road, land availability and price affordability. Most of the strata-title office space here is owned by domestic non-financial companies. South Jakarta also remains the most prominent location for shopping malls, accounting for 40% of Jakarta's total leasable retail area, while strata-title retail centers are mostly located in Central Jakarta.

North Jakarta contains the entire coastal area and is popular with the Chinese business community. Ancol Jakarta Bay City, Jakarta's largest and most popular recreation park, has spurred expansion plans to develop more hotels, restaurants and services. The best-known residential area in North Jakarta is Kelapa Gading, which was transformed from an undeveloped marshland in the late 1970s to landed housing and condominiums for the mid- to upper-market segment in the late 1990s. There are six shopping malls within the vicinity.

Further away from Kelapa Gading to the east is a 270-hectare integrated Jakarta Garden City in Cakung, developed by Singapore-based Keppel Land. Having been developed in phases for 10 to 15 years with an eco-commitment, the project features 7,000 landed housing units and apartments and other public facilities. Residents living in East Jakarta are mostly working in commercial and industrial estates in Bekasi, Cileungsi and Cikarang.

West Jakarta is well known mostly for its busy Chinatown. The key residential area here is Jakarta Old Town, once Indonesia's commercial center, which flourished during Dutch rule.



Jakarta real estate market snapshot

Residential sector: fast-growing market driven by an expanding middle class

- ▶ Population and land area in Jakarta are continuing to grow.
- ▶ Most residential projects with affordable pricing have been developed in Jakarta's outskirts or satellite cities since the early 1990s because of the increasing land price in the city.
- ▶ Due to traffic congestion, there is a growing demand from many middle- to upper-class residents to move back to the city and live near to their workplaces.
- ▶ The apartment market in Jakarta comprises several types: rusunami projects (low-cost condominiums with government subsidies), anami projects (slightly more expensive without government subsidies) and middle- to high-end condominiums. Most anami projects and condominiums are located within the city while condo minimums dominate the overall apartment market.
- ▶ By 2011, the cumulative existing apartment supply stood at 85,713 units with a strong cumulative sales rate of 95.2%.
- ▶ Residential demand continues to stay strong, absorbing any new supply provided by newly built apartments. Condominium sales in Jakarta have been steadily increasing from about 500 units per quarter in 2009 to 2,000 units in Q2 2011. Further, take-up rates have remained healthy: take-up rates in Jakarta were about 75% during Q3 2011, with projects in the central business district (CBD) recording almost 100% absorption rates. South and West Jakarta have been witnessing increasing apartment supply owing to both the better infrastructure in these areas and the presence of other facilities, such as shopping and schools.
- ▶ The average price of condominiums within the CBD reached IDR19.9m (US\$2,160) per square meter (psm) in 2011, 18.9% higher than in 2010, mostly due to higher demand coupled with the rise in land values and increasing construction costs.
- ▶ Positive buyer sentiment supported by an expanding economy and higher living standard requirement is expected to continue supporting high absorption, especially in the city, which is facing land scarcity.
- ▶ The expatriate housing market will see rental increase as a result of new demand from anticipated new hires from MNCs, especially consumer goods companies.

Office sector: buoyant prospects for capital value appreciation

- ▶ Strong demand for office space in Jakarta continues to fuel rapid rental growth. There was a total net take-up of 332,600 sqm in 2011, 63% higher than that recorded in 2010. This contributed 5.5% to an occupancy level of 90.7%.
- ▶ Sudirman and Kuningan precincts (within the Golden Triangle) will continue dominating office supply in Jakarta's CBD, accounting for approximately 65% of total stock.
- ▶ Office rents grew 9.5% year over year in Q3 2011 (with rentals of some prime CBD buildings approaching US\$40 psm per month), and CBD occupancies were at an all-time high of 92.9%.
- ▶ Demand for strata-title space in the CBD remained high, with an average price of IDR19m (US\$2,060) psm in 2011, almost 20% higher than that in 2010.
- ▶ On the back of Indonesia's projected 6.5% economic growth, annual net take-up is expected to reach approximately 350,000 sqm, registering a growth of 8% to 9%. High pre-commitment levels of the new office supply of approximately 444,450 sqm (including strata-title office space) in 2012 will help maintain a healthy occupancy rate and high rental growth. Hence, capital values are expected to continue rising.

Retail sector: steady performance due to strong consumer spending and interest from foreign retailers

- ▶ Indonesia's economic growth has resulted in a sizeable and growing high-spending middle class population that is driving demand for retail malls. According to Lippo Mapletree Indonesia Retail Trust Annual Report 2010, Indonesia's retail sales are expected to grow from IDR1.24t (US\$119.4b) in 2010 to IDR2.07t (US\$200.16b) by 2014 at a CAGR of 13.5%.
- ▶ Total Jakarta retail supply was 3,559,600 sqm with an average occupancy rate of 81% as at December 2011. With a modest supply of 61,600 sqm in 2011, the retail market will witness an additional supply of 336,800 sqm in 2012. However, a significant portion has been committed on the back of growing consumption and lifestyle enhancements.
- ▶ Retail space has been evenly developed in Jakarta with the CBD taking the lead (3,559,600 sqm or 22.3% of the total), followed by North Jakarta (747,000 sqm or 21%), South Jakarta (666,000 sqm or 18.7%), West Jakarta (616,400 sqm or 17.3%) and Central and East Jakarta making up the rest.
- ▶ Rental base rent in prime locations (Kota, Pasar Baru, Blok M precincts and CBD area) reached IDR854,000 (US\$92) psm while the average was about IDR615,600 (US\$67) psm on Jakarta overall.
- ▶ There is growing interest among leading retailers to expand their presence in Jakarta and surrounding cities.

Hospitality sector: playing catch-up with the rest of Southeast Asia

- ▶ According to a local website, Antaranews, a total of 7.65m tourists visited Indonesia in 2011, an increase of 9.24% compared to 2010. Soekarno-Hatta Airport in Jakarta, the largest in the country, received 1.93m arrivals. This is close to a 100% jump since 2000, when about 1m arrivals were registered.
- ▶ The total supply of three- to five-star-rated hotels was 25,543 rooms as of December 2011, of which five-star hotels accounted for 40%. The average occupancy rate was 67.35%. There will be 1,543 star-rated hotel rooms coming on stream in 2012, mostly from integrated projects at other prime non-CBD areas.
- ▶ The hospitality sector in Jakarta has shown a consistent upward trend in line with Indonesia's economic growth. ADRs in Jakarta, which have traditionally been among the least expensive hotel markets in Southeast Asia, have been growing consistently, and occupancies have rebounded strongly since early 2010 after the financial crisis. Between July 2010 and June 2011, Jakarta's RevPAR increased by nearly 20% to IDR551,100 (US\$65), even higher than Singapore's.
- ▶ The steady pace in tourism, stronger economy and greater business activities brought by meetings, incentives, conferences and exhibitions will continue driving the hotel sector's performance. The increased affordability of regional and domestic air travel coupled with its status as a stopover to other Indonesian provinces are expected to continue to benefit Jakarta's tourism landscape.

Industrial sector: record levels of absorption and rental growth

- ▶ Sales of industrial land in 2011 reached an all-time high. Total land sales in Greater Jakarta were 950 hectares, more than a twofold increase compared with 2010, due to robust demand from automotives and consumer goods companies.
- ▶ Overall absorption in Greater Jakarta stood at 77.6%.
- ▶ Jakarta has taken the lead in terms of average land price of IDR2.5m (US\$270) psm and absorption rate of 86.5%. Bekasi and Karawang/Purwakarta remained the preferred locations for industrial estates, with a more affordable land price of IDR0.7m-IDR1m (US\$76-US\$108) psm, accounting for 84% of transaction volume in Q4 2011.
- ▶ In Karawang, the largest industrial estate, prices doubled in Q3 2011 to IDR0.8m (US\$90) psm relative to 2009.
- ▶ Going forward, prospects for industrial real estate are expected to be strong, with the continued strong growth of the Indonesian economy and increasing investment interest from Japanese, Korean and Indian manufacturers.

For page 16 and 17, the general sources are: CBRE, Colliers, Knight Frank, Cushman & Wakefield and Jones Lang LaSalle research.

Surabaya

Surabaya is Indonesia's second-largest city with a population of more than 2.7m (5.6m in the metropolitan area). It is the capital and the main trading port, with principal exports of sugar, tobacco and coffee from the province of East Java. The city is planned to become Indonesia's second economic hub and has good potential for property investment in various sectors, such as residential, office, retail and hotel. However, the markets have been dominated by local developers (both Jakarta- and Surabaya-based).

Central Surabaya is around the Jalan Pemuda, linking Plaza Surabaya and the Gubeng railway station at one end and Tunjungan Plaza at the other end. Its major port, Tanjung Perak Port, covering 760 hectares in northern Surabaya, has spurred residential development since the 15th century. The port supports the city's trading activities, as well as shipping-related industries.

The Ngagel industrial complex, in the city center since 1916, has been relocated to Rungkut Industrial Estate in southern Surabaya. It is now one of the biggest industrial zones in the city, where many manufacturing facilities are located.

There are currently three main townships in Surabaya, including Citraland of the Ciputra Group and Graha Famili of Intiland (western Surabaya) and Pakuwon City of the Pakuwon Group (eastern Surabaya). Western Surabaya has been a favorable location for wealthy Surabaya residents.

The 2,000-hectare self-contained Citraland township, known as "The Singapore of Surabaya," features landed housing for 3,500

families, retail shops, education facilities, a water park and a golf course. Closer to the city is the smaller 280-hectare Graha Famili township, which is reported to command the highest residential price in western Surabaya. Both townships have been fully developed. The 286-hectare waterfront Pakuwon City has been established as an upper-middle-class residential township with small office/home office (SOHO) units, retail shops, condominiums and gated villa development. The land price is reported to have grown at a CAGR of 20% from 2007 to 2010. Capitalizing on the success of these three townships, developers have planned various large-scale projects to tap into the growing demand, such as Intiland's 80-hectare Graha Natura (within a five-minute drive from Graha Famili) and the 187-hectare development by Pakuwon Group as a future expansion of the current Pakuwon City.

According to Colliers, 2011 hotel supply was dominated by three- and five-star hotels. Total hotel rooms stood at 4,972 in 2010 with a strong occupancy rate averaging 70% for star-rated hotels. As the gateway to East Java's key tourist attractions, such as Mount Promo and Malang, Surabaya has good potential for the hotel sector. In addition, the average room rate for five-star hotels was about IDR555,000 (US\$60) per night, lower than that in Jakarta and Bali. This competitive rate is expected to encourage visitors to Surabaya for meetings, incentives, conferences and exhibitions. The Surabaya Tourism Promotion Board estimates 80% of visitors to Surabaya are on business, half of them for meetings, incentives, conferences and exhibitions. The city has approximately 38,000 sqm of exhibition space in its two main venues, Grand City Convex and Jatim Expo.



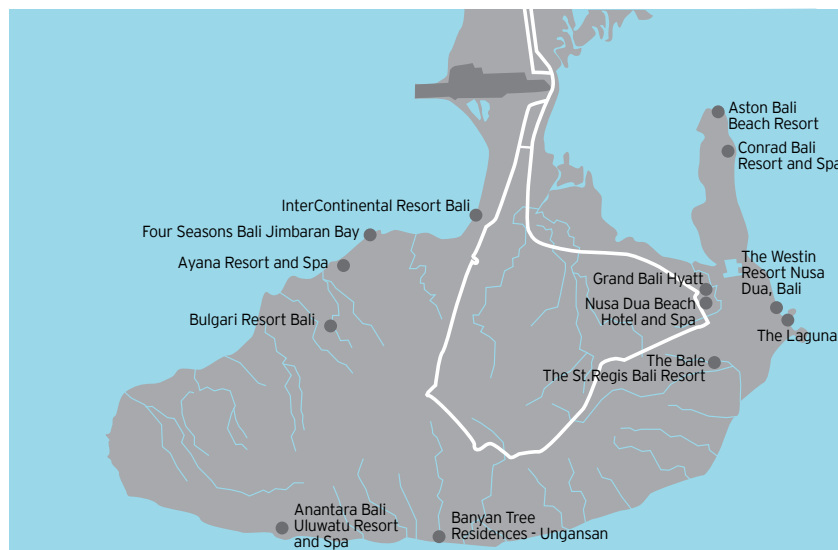
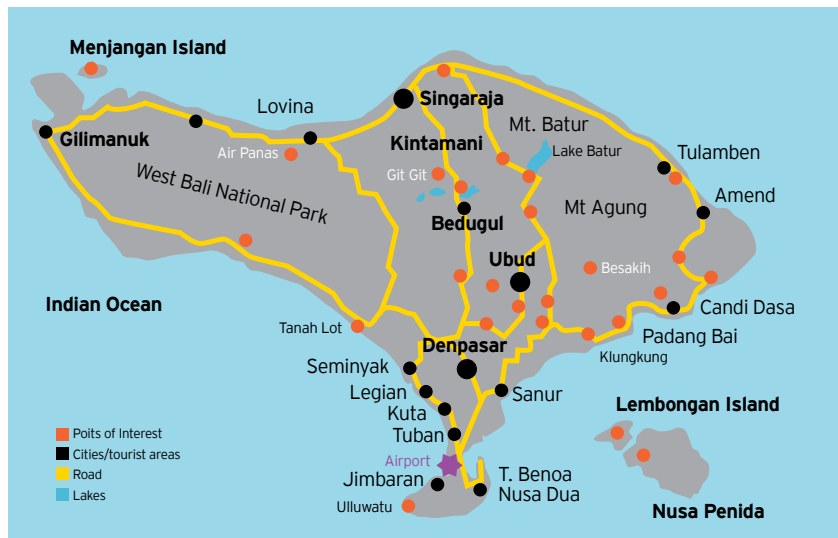
Bali

Bali is an Indonesian island located between Java and Lombok. It is Indonesia's largest tourist destination and one of the leading Asian resort destinations. The island is well known for its multiple tourist attractions: white-sand beaches, mountains, volcanoes, cultural attractions, shopping, spas and a variety of luxury resorts.

Kuta is famous for its long white sandy beach as an ideal place for surfing and swimming. Together with Legian, they comprise the main entertainment area in Bali, with shops, galleries, restaurants and night spots. On the southern part of Bali, Jimbaran and Nusa Dua offer exclusive tourist resorts with some international chain hotels and luxury private villas. Among 35 four- to five-star hotels and resorts, a number are located here, such as Banyan Tree Ungasan, Grand Hyatt Bali,

The Laguna Resort and Spa, InterContinental Resort Bali, Bulgari Resort Bali, St. Regis Resort Bali, Four Seasons Bali Jimbaran Bay, Conrad Bali Resort and Spa and The Westin Resort Nusa Dua.

Ubud, located in the heart of Bali, has hillside settings overlooking lush rice paddies. It is also the arts and crafts center of the island, providing a mixture of traditional rural life and natural beauty. International luxury resorts here include The Amandari Villa and Four Seasons Resort Bali at Sayan, among other local five-star resorts, such as Ubud Hanging Gardens, The Chedi Club at Tanah Gajah at Ubud and Royal Pita Maha. North Bali is known for its laid-back environment without mass tourism or shopping malls.



In June 2011, in the first Global Tourism Thermal List – Most Preferred Tourist Attractions for the Chinese in 2011, Bali was voted the top tourist destination in the world for Chinese citizens. Bali had also been awarded the Best Leisure Destination in Asia Pacific by *Business Travelers Asia-Pacific* magazine in 2010.

According to the Bali Tourism Agency, the island welcomed 2.7m international arrivals in 2011, registering an 8% growth year-over-year. Annual growth (CAGR) has averaged 10% over the past seven years since 2005, with 1.38m direct foreign arrivals. Given a stronger domestic economy and growing middle class, domestic arrivals outpaced international arrivals by 22% in first half 2011 and was projected to reach 2.8m in 2011.

The main real estate activities on the island are hospitality, with some complementary retail development. The star-rated (three to five) hotel segment has experienced a significant supply addition with an increase of 1,165 rooms in eight hotels since H1 2010, bringing the total supply for the H1 2011 to 20,275 rooms. This represented a 6% growth over 2010 and is attributable to the rising number of tourist arrivals and the increase in major international conferences held in Bali. Approximately 3,242 rooms, largely targeting the three-star and above market, are scheduled to be delivered from the second half of 2011 till 2012.

For the first half of 2011, the overall occupancy rate rose by 2.3% to 72.7% compared to the same period last year. The growth rate of 7.3% to an occupancy rate of 73.4% from three-star hotels outperformed those from both four- and five-

star hotels, which increased 5.8% and 0.3%, respectively. The average absorption of room demand is approximately 12,858 rooms at an average occupancy level of 66.9% in 2010.

The positive trend in overall occupancy rate was translated to a rise in ADR and REVPAR. The ADR for five-star hotels posted the largest increase of 9.2% to US\$169.33 in 2011. The total average REVPAR across all hotels increased by 5% to IDR665,000 (US\$77.35).

The constant growth of tourism in Bali has generated much interest for holiday home products. Having started with limited local time share products, mainly offered by mid-market developers in the late 1980s, Bali has witnessed the introduction of luxury branded villas, such as St. Regis Resort Bali, Banyan Tree Residences Ungasan, Hotel Novotel, Bali Nusa Dua Hotel & Residences and Anantara Seminyak Resort & Spa. The most common foreign ownership of property in Bali is holding the right of use, which would be granted over the relevant land for an initial period of 25 years (extendable to another 20 years). The owners are given the option of using the villas as their full private holiday homes or putting them in the project's rental pool. An estimated 5,500 holiday homes (including 4,000 units marketed as branded) have been on the market since 2000, with foreigners accounting for 70% of the buyers. For the luxury branded units above US\$1m each, developers have offered foreign buyers an equivalent "freehold ownership" through the use of offshore vehicles.

Steady growth in tourism is expected to put Bali on track to target 3m foreign tourists in 2012, which will definitely lift optimism for hospitality and holiday home markets.

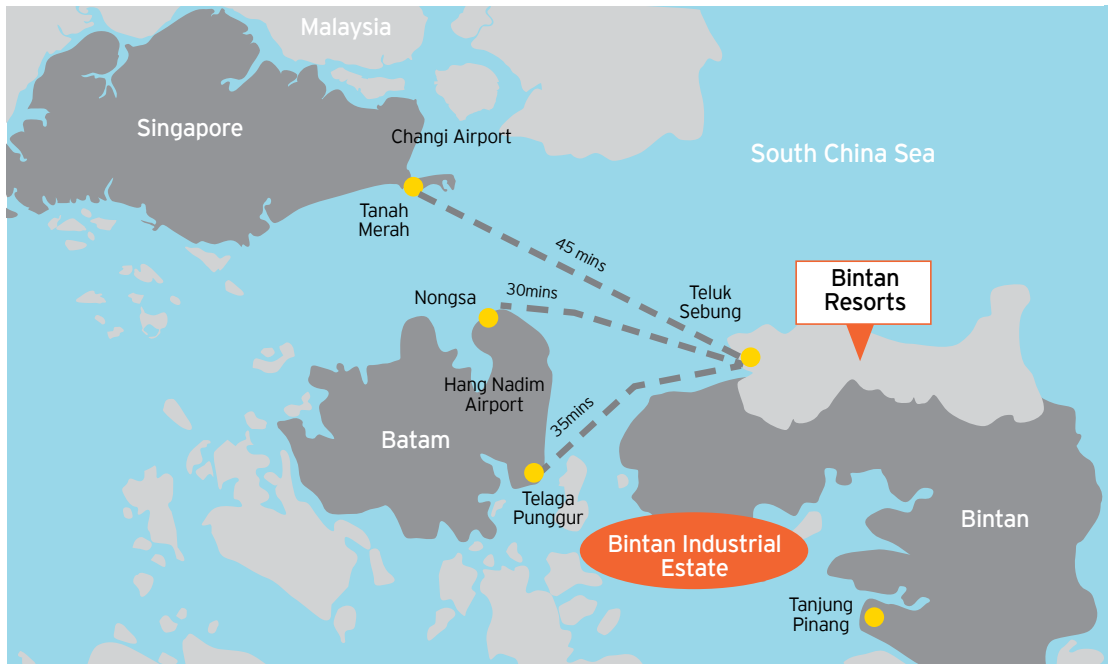
Bintan

Bintan island, part of the Riau Islands in Northern Indonesia, is a resort destination. Located 48 km southeast of Singapore, Bintan has a total area of 1,866 sq km and a population of roughly 300,000. The island offers pristine white sand beaches and has approximately 100 km of shoreline with small isolated coves, rocky headlands and mangrove rivers. These areas are rich in marine life and home to a variety of tropical rainforest flora and fauna.

Accessible by a 45-minute high-speed ferry ride from Singapore, it has been tapping into Singapore's residents and more than 13m leisure and business visitors who came to the city-state in 2011. Foreign visitor arrivals have been growing steadily and touched 470,470 in 2011, registering a CAGR of 9% between 2005 and 2011. While Singapore still accounts for 34% of visitors (Bintan enjoys a preeminent position as a weekend getaway destination for Singaporeans), the visitor

profile is more international in nature, with native Indonesians (17%) and tourists from China (6%), Korea (6%), Japan (5%) and India (4%).

Tourism in Bintan is concentrated in Bintan Resorts, a 23,000-hectare land parcel in the northern part of Bintan. The total room count for the Bintan market is currently approximately 1,400 rooms, comprising local and international branded resorts, such as the Nirwana Gardens, Banyan Tree Bintan, Angsana Resort, Club Med Bintan, Ria Bintan and Bintan Lagoon Resort. These resorts, sited on large land parcels of 200-400 hectares, are self-contained, with a variety of attractions and water sports within each resort. The island has also been known for seven spa offerings, and as a golfer's paradise, with four golf courses, designed by golfing superstars Jack Nicklaus, Gary Player, Ian Baker-Finch and Greg Norman.



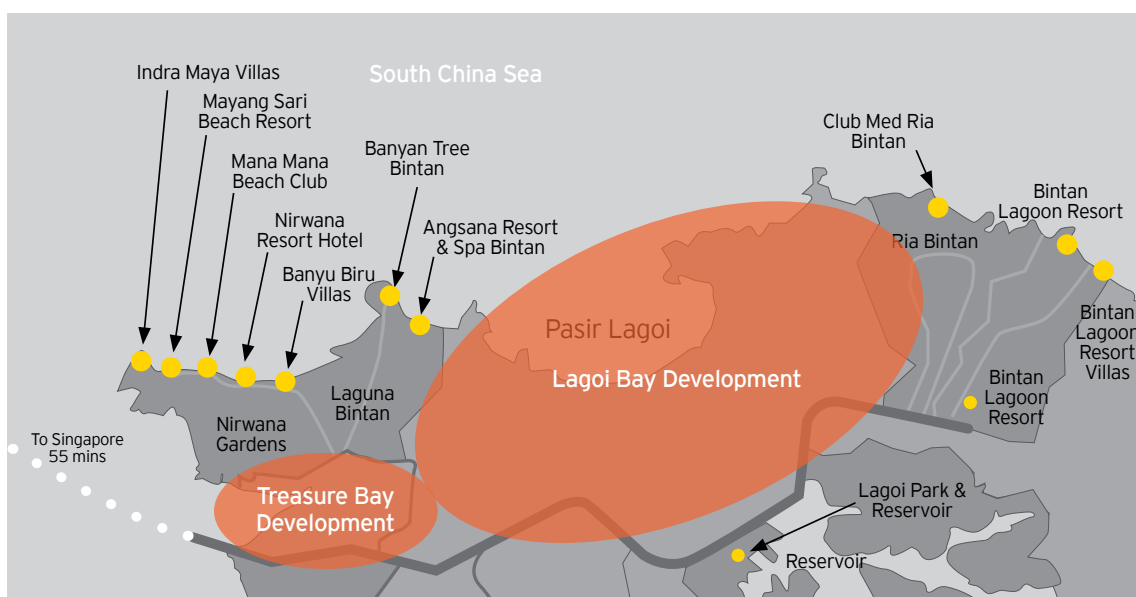
The island's real estate market has been buoyant, with the 2011 official launch by Genting Berhad of the 343-hectare Treasure Bay, one of the world's largest leisure and hospitality, gambling and entertainment conglomerates. Its first phase of 89 hectares features a luxury resort and serviced villas, a multimodal transportation terminal, a marina and lagoon, as well as amenities for entertainment, retail, night-life, and food and beverages. The project is projected to cost over US\$300m and to be completed in 2015.

Another positive development for Bintan is the proposed development by the master planner Gallant Venture and other investors of the 1,500-hectare Lagoi Bay, nestled between Club Med Ria Bintan and Banyan Tree Resort, for integrated resorts and residential homes. Lagoi Beach Village, a mixed project covering approximately 20 hectares at the heart of Lagoi Bay, is being developed. According to research by the Development Bank of Singapore in 2011, land plots sold to investors up to April 2011 were projected to provide another 600 to 700 keys over the next five years. An estimated 580 hectares in Lagoi Bay has been earmarked for residential homes, targeting Singapore residents with a cheaper alternative to owning beachfront properties. A 162-villa Pantai Indah development by BU Holdings, for which land was acquired from Gallant Venture in 2009, has been launched. With a price tag of US\$1,300-US\$1,700 psm on land compared with more than US\$15,000 psm for Sentosa Cove homes (on Sentosa island) in Singapore, the project is also located within a one-hour radius from Singapore. Ten out of 26 beachfront villas were reported to be sold in the first phase in April 2011. In addition, there are another 244 land plots in the new Aranya Lagoi Residences for sale. These projects demonstrate the growing holiday home market in Bintan.

Bintan has been highlighted for various awards and recognitions, including "Best weekend getaway," in *IS* magazine's annual Readers' Choice Awards in 1999 and 2001 and "one of the top 50 international destinations" in *Conde Nast Traveler* magazine in July 1997. Its diverse visitor profile shows Bintan's international recognition as a holiday destination.

Bintan's foreign tourist arrivals have been about 3.6% of Singapore's. With Singapore's buoyant tourism growth and extensive marketing promoting Bintan with Singapore as "twin holiday" destinations that combine elements of city and beach holidays, the hospitality industry is expected to see a more rapid growth. Tourist arrivals are expected to reach 1 million by 2015, at a CAGR of approximately 20%. The island is planning a new airport to improve connectivity to key Indonesian cities and neighboring countries within Southeast Asia.

Located in the western part of Bintan, a 500-hectare Bintan Industrial Estate (BIE) in a Free Trade Zone has been developed by a Singapore-Indonesian consortium as an integrated industrial town. As a seafront industrial park, with its own container port, a passenger-ferry terminal and customs office, BIE provides good infrastructure and is a convenient trans-shipment hub for electronics, oil and gas support and resource-intensive light industries. The industrial estate has attracted more than 20 MNCs and SMEs, requiring large land parcels and ready-built factories for quick start-ups.



Batam

Batam Island, the largest city in the Riau Islands Province of Indonesia, is located 20 km off Singapore's south coast (about a 40-minute ferry ride). The island's airport has an extensive network with other Indonesian cities and Kuala Lumpur, Malaysia's capital. Most of the developments have taken place in northern Batam.

Batam received full free trade zone status in 2007. So far, it has 25 industrial parks, attracting more than 1,200 foreign companies and employing more than 300,000 local workers. Precision engineering, electronics manufacturing, and marine and offshore support industries are major industries on the island. As of the end of December 2008, Batam had accumulated a total of approximately US\$12.2b in investment. In 2011, FDI in Batam grew to US\$105m, a jump of 44.8% from US\$72.5m in 2010. Between 2003 and 2010, with the exception of 2009, its economy grew more than 7% each year. Some well-known MNCs already operating in Batam include ABB, Ciba Vision, Epson, Halliburton, Hyundai, Nippon Steel, Pan United Shipyard, Philips, Sanyo, Schneider Manufacturing, Siemens and Sumitomo.

Besides the existing manufacturing industry, tourism has been a booming industry in Batam. The total number of foreign visits to Batam for work and leisure in 2008 reached more than 1.45m, making it one of the top destinations for foreign arrivals in Indonesia. In addition to six international standard golf courses and two marinas, there are 5,600 hotel rooms in 50 hotels, 60% of which are star-rated hotels and beach resorts. Among these are Holiday Inn, Novotel Hotel, Harris Resort, Swiss-Belhotel, Mercure and Nongsa Point Marina and Resorts. The majority of hotels and golf courses are located in the Nongsa region.

Mass housing projects have been developed for the locals, who are attracted by growing jobs and business opportunities in Batam. However, the island witnessed the launch of a luxury waterfront home project in early 2011. Montigo Resorts Residence at Nongsa of KOP Properties features 88 villas and 45 residences. The selling price is US\$1,120 psm on land (for a typical 300-sqm villa with 1,000 to 2,000 sqm of living space), compared with US\$1,300-US\$1,700 and above US\$15,000 psm for a similar unit in Bintan and a Singapore waterfront villa project, respectively. The company reports 40% of the development has been sold.



"Indonesia has the right formula to enjoy a buoyant real estate market – young aspiring population, growing affluence, strong economic growth and rising FDI. These have resulted in increased domestic demand and improved investor sentiment."

Mak Hoe Kit, Executive Director & Co-Leader (Real Estate Deals),
Ernst & Young Singapore

Key hindrances to the property market





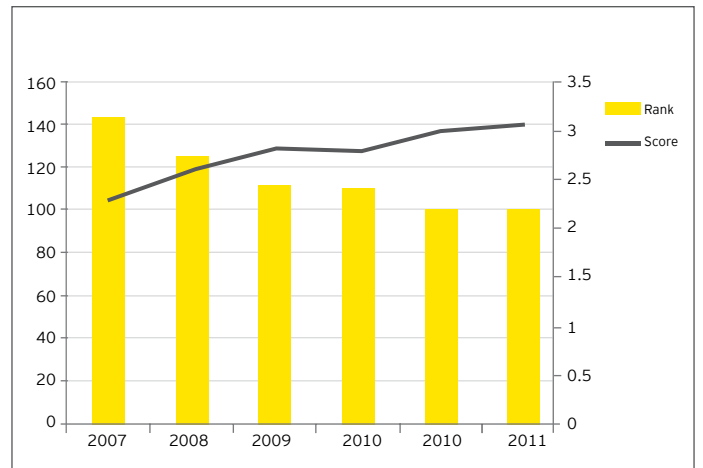
Red tape and low transparency

According to *Business Monitor International*, extensive red tape and corruption make it time-consuming to set up and operate a business in Indonesia. However, the advent of democracy in recent years has contributed to bringing more transparency and accountability to the Government.

The country continued to show further improvement in combating corruption. This was reflected in the latest corruption perception index in 2011, issued by Transparency International, which ranked Indonesia at 100th from its 143rd position in 2007, signaling a better perception of the incidence of corruption in the country.

However, Indonesia still needs to show further improvement, as the country remains in the bottom range in comparison with other economies in the Asian region, such as Singapore (5th), Brunei (44th), Malaysia (60th) and Thailand (80th). Corruption continues to be one of the top concerns of foreign investors.

Corruption Perception Index (Indonesia)



Source: Transparency International website.

Underdeveloped infrastructure

In a report in 2011, Standard Chartered Bank revealed that weak infrastructure, particularly the lack of trans-Java highways, inadequate power supply and insufficient seaport facilities in the world's biggest archipelago have become the biggest hindrances to FDI.

Infrastructure quality in selected Asian countries

Country	Singapore	Malaysia	Thailand	China	Indonesia	India	Philippines
Roads	6.6	5.7	5.1	4.3	3.5	3.3	2.8
Railroad	5.8	4.7	3.0	4.3	3.0	4.6	1.7
Seaport	6.8	5.6	5.0	4.3	3.6	3.9	2.8
Air transport	6.9	5.9	5.9	4.4	4.6	4.6	3.6
Electricity	6.7	5.7	5.7	5.3	3.6	3.1	3.4
Score (out of 7)*	6.6	5.5	4.9	4.1	3.7	3.6	3.2

*1 = extremely under developed; 7 = efficiently by international standards

Source: *The Global Competitiveness Report 2010 - 2011*, World Economic Forum.

Under the International Monetary Fund (IMF) program from 1998 to 2004, President Yudhoyono's predecessors focused primarily on fiscal prudence rather than building new projects. While the Government managed to successfully achieve its fiscal target, weak infrastructure is preventing Indonesia's GDP growth from reaching its potential rate of 8% from the previous range of 4% to 6% since 2002 (Standard Chartered Bank research).

The single biggest hurdle to road construction, for example, is land clearance, as land is mostly owned by private owners in democratic Indonesia. Government compensation must be approved by the parliament and the state auditor.

President Yudhoyono has pledged to double spending on roads, seaports and airports to US\$150b to help deliver average growth of 6.6% over the remainder of his term, which ends in 2014. A land acquisition law that was passed in early August 2012 is expected to allow Indonesia to accelerate road, port and airport projects, and could be a major turning point in the country's efforts to ignite an economic boom.

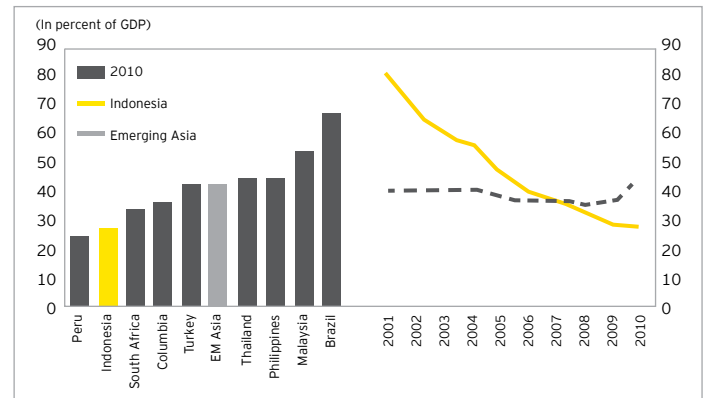
"As in any emerging market, the growth potential is immense, but one needs market experience and familiarity to maneuver in this country so as to mitigate the risks."

Teh Seng Leong, Partner (Transaction Support),
Ernst & Young Singapore

Fund outflows and currency volatility

According to the World Bank, a move toward an open currency regime has exposed the rupiah to high volatility, especially when there is a reversal in foreign capital inflow. Maintaining its investment-grade status, accumulating a much higher reserve and lowering the national debt level will mitigate this negative effect. In fact, Indonesia's foreign exchange reserves reached US\$112.2b in February 2012 from US\$60b in 2008. More significantly, Indonesia successfully reduced its debt from as high as 80% of GDP in 2001 to 27% in 2010.

General government gross debt

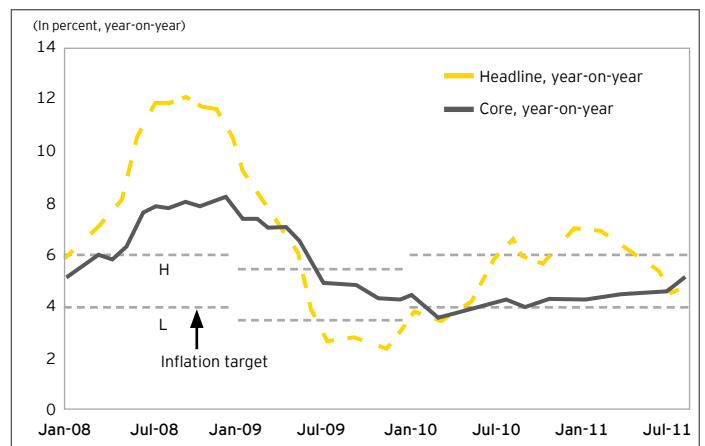


Source: *Fiscal Monitor*, IMF, April 2011.

Fuel subsidies and inflation

IMF research shows that energy subsidies in Indonesia have risen in line with oil prices and now account for 18% of expenditures. The subsidies limit the flexibility of fiscal policy and the ability to fund priority expenditures. Moreover, fast-increasing domestic fuel demand, due to increasing infrastructure and social spending, volatile oil prices and uncertainties in oil and gas production, would pose risks to the budget going forward. The Government may consider balancing the fuel subsidy level, which contributes to uncertainty regarding inflation and other economic outcomes.

Consumer Price Index inflation



Source: IMF website.

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List of abbreviations

ADR	average daily rate
ASEAN	the Association of Southeast Asian Nations
b	billion
BIE	Bintan Industrial Estate
BKPM	Badan Koordinasi Penanaman Modal (Investment Coordination Board)
BPN	Badan Pertanahan Nasional (National Land Agency)
CAGR	compound annual growth rate
CBD	central business district
D/E	debt/equity
FDI	foreign direct investment
GDP	gross domestic product
Ha	hectare
HGB	Hak Guna Bangunan (right to build on land)
HM	Hak Milik (right to own)
HP	Hak Pakai (right of use on land)
IDR	Indonesian Rupiah
IMF	International Monetary Fund
km	kilometer
m	million
MNC	multinational corporation
IUT	Ijin Usaha Tetap (permanent business license)
PMA company	Penanaman Modal Asing company (Foreign investment company)
PPAT	Pejabat Pembuat Akta Tanah (Authorized Land Conveyancing Officer)
PSM	per square meter
PT	Perseroan Terbatas (limited liability company)
REVPAR	revenue per available room
SME	small and medium enterprises
sq km	square kilometer
sqm	square meter
t	trillion
US\$	United States dollar
UUPA	Undang Undang Pokok Agraria (Basic Agrarian Law Act)

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