

Indonesia Real Estate

Extension of rights to use (hak pakai): how it benefits high-rise developer

- Rights to use (hak pakai) extension – a significant milestone?** *Bisnis Indonesia* reported the finalization of Ministry of Housing regulations to extend leasehold titles (hak pakai) for foreigners from 25 years to 70-90 years. According to *Bisnis Indonesia*, the law could be passed by Parliament by December 17th, 2010. The current hak pakai term of 25 years is seen as unattractive; and although in theory it can be extended by another 20 years and renewed for another 20 years, the process is fraught with red tape and regulatory risks. If the change occurs, it would be a positive development, as whilst news of liberalization of foreign ownership in Indonesia has been heard since the beginning of the year, no progress has been visible. We believe that the passage of the regulation would benefit high-rise developers that own land in strategic pockets in Jakarta (Central Business District) or tourist areas like Bali.
- Potential one year boost to condominium’s marketing sales.** This, in our view, should be positive for the condominium segment, which has an estimated 7,000 units p.a. of new supplies. The government estimates there are around 56,950 expatriates living in Jakarta. Assuming 10% of expatriates want to purchase apartments, it could create additional demand for 5,695 high-rise residential units. Willingness of banks to lend on products built on hak pakai land could also potentially improve. If it is implemented, it could account for a full year of condominium unit supply.
- This could also speed up government’s effort on utilizing land assets.** The second benefit of this new law is the potential easing of utilization of land owned by the government. The government cannot sell land and can only offer it as leasehold/JVs. Previous structures used by the government include joint ventures/land leases with developers in areas like Senayan City (which is 25% owned by Agung Podomoro Land) and Grand Indonesia (which is owned by Djarum group).
- Beneficiaries** include Agung Podomoro Land (APLN IJ, OW, PT: Rp470), Lippo Karawaci (LPKR IJ, OW, PT: Rp800), Ciputra Property (CTRP IJ, Not Rated), Bakrieland Development (ELTY IJ, UW, PT: Rp140) and Bukit Uluwatu Villas (BUVA IJ, Not Rated).

Indonesia Property

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Table 1: Valuation Comparison

	Price	Rtg	Price Target	Mkt Cap US\$ mn	NAV Current	Disc/Prem NAV
Agung Podomoro Land	405	OW	470	923	549	-26.2%
Ciputra Development	350	OW	505	590	600	-41.7%
Bakrieland Development	157	UW	150	696	490	-68.0%
Lippo Karawaci	710	OW	800	1571	1070	-33.6%
Ciputra Property*	435	NR	N/A	297	950	-54.2%

Source: Bloomberg, J.P. Morgan estimates, Company. Prices as of 14 Dec 2010. Not rated company NAV is per company's guidance.

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