

# Buying Property in Bali



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"Buying a good investment property in Bali makes sense !

- There is the positive cash flow from being able to rent.
- With prices ever climbing, also expect a healthy capital gain.
- Own an affordable villa for your personal quality holidays.

- Despite this tempting combination we foreigners do hesitate to look into investing in Bali because the rule of law is different to what we are used to.

Please let me share my personal knowledge with you, as well as the experience of hundreds of our clients and thousands of established expats who already bought into Bali".

## Why buy property in Bali?

Living the 'Good Life' .

I am a German born Australian, who is heading the Real Estate Agencies of UbudProperty, Bali Elite Realty and Ubud Royal Realty. For over 20 years I have been living on Australia's beautiful east coast. Doing farming, managing my second business and living well the Aussie way. Good times indeed. On a 'Happiness Scale' from 1-10 these years deserve a rating of 7+ . Why am I saying this to you?

Because the 12 years I since spent in Bali score better again. Easily they deserve a ranking of about 8.5. (10 would be bliss in heaven, which can wait some more ).

How is this possible? Are Aussies not truly blessed in their great Country? Besides, almost everyone overseas knows that Bali has some challenges to deal with.

How come that Bali has this ever increasing appeal for living there and investing into?

Chances are, you may have been in Bali at some point in your life already. Therefore I should not try to add to your own observations. Instead let us look for a moment at what makes life in Bali different from the one at your home.

We all, even when living in paradise, are longing for an occasional change of tapestry. To reach Bali takes just a few hours from Australia, or the main hubs of Asia and a very different world is greeting you. Just what we need

in order to be able to get away from our day to day environment at little cost and effort. Few other places offer such cultural diversity right next door.

Better climate, healthy food, holiday atmosphere all around and the amazingly vivid tradition are amongst the benefits which you would have experienced already.

Should your situation allow you to spend there more than just a few weeks, you will be able to mix with a pleasant society of expats. Then there are the great local people, who have not forgotten to be happy, no matter what position or age. Meet friendly smiles wherever you go.

In a moment we will also look at the important, but less romantic issues, such as cost of living and ROI, which are also clearly on the sunny side.

However, if all would only be good, Bali would sink under the weight of foreigners.

On the less sunny side we find the tight traffic conditions in the city and surroundings. Indonesians earn more money, which buys more vehicles. Also, there is still no effective way to deal with the plastic rubbish like ice



cream wrappers and cigarette packs in the streets. However, by now I am already wrecking my brain to highlight other significant shortcomings and end up empty.

Let's say the medium price would be A\$ 13,000.- per 100 sqm (= 1are). Therefore a 1500 sqm block of good land in scenic surroundings will cost A\$ 195,000.-.



What do you think, does this come under good or bad: If you are stopped by police because you turned somewhere wrong, this may cost you the equivalent of 5 Dollars. No paperwork involved. This relaxed policy certainly has a funny side to it. Right here on my turf in Ubud the same amount was given to police as a 'thank you' by a drunken tourist, who was trying to get into his car seat and came falling out again. The good policeman helped him back in. Picture that were you come from.

Property prices in Bali are increasing at an average of 20% per year, second highest after Jakarta, the country's capital. This appreciation is steady from the year 2005 until today's date.

This trend is bound to continue for some considerable time, as the demand is increasing due to the rise of overseas living expenses and pensioners seeking relief here and the growing income earning potential of the Indonesian citizen.

So the less organized facets of daily life are somewhat sweetened. Fortunately (?) over the years to come, Indonesia will lift its standard anyway and we will loose a bit of those special attractions. Now let's look at figures and numbers.

In some areas of Bali, the appreciation is even higher. A 30 - 50% increase per year has been reported in areas with high domestic demand and/or related to tourism industry. This high appreciation value is bound to entice a growing number of people to consider investing in Bali. However this rate cannot possibly continue at the same ratio forever, even if fuelled by increased buyer's interest. Investors will become skeptical. We can appreciate those two different views, as not everybody has the opportunity to see where this high value appreciation derives from.

- For years already we see a steady property value appreciation, (enjoying capital growth) happen.

In the typical tourist areas near the coast, but not directly on the beach, prices per are (1are= 100 sqm) average about RP 275 Mill (A\$ 33,000 / End of 2011).

The surroundings of Ubud, which lies more towards the centre of Bali, with a wonderful climate and true Bali appeal, range from A\$ 6000.- to 20,000.- per are.

The main reason is the **rise of Indonesia's middle class**. Credit Suisse's Global Wealth Report in October 2010 reported that there are 48.5 million people in Indonesia categorized as middle class (net assets between \$10,000



- \$100,000). This number is almost double the total population of Australia. And these middle class families take their holidays. Bali as the main tourist destination automatically enjoys the effect of the rise of this middle class. In 2010, there were more than 6 million domestic tourists visiting Bali. They brought excellent business to the Bali tourism industry. However, we see just the beginning, because Indonesia's economy, together with China and India, as predicted by economy experts, will enjoy rapid growth.

The second boost is based on foreign tourism. Starting from 2008, Bali keeps noting new record numbers of foreign visitors:

Period	Number of tourist	Australian Tourist %	Hotel occupancies
Januar - December 2007	1,668,531	12,29%	57.31%
Januar - December 2008	1,992,299	18,06%	66.94%
Januar - December 2009	2,385,122	18,72%	59,66%
Januar - December 2010	2,576,142	24,90%	60,81%
Januar - August2011	1,845,510	27,16%	62,69%

Both developments are contributing to increased bookings for accommodations in Bali. You can also see that the occupancy rate is steadily going up. Thousands of new rooms have been built, but still thousands more are needed.

As Bali's economy is leveraged by tourism, higher tourist numbers mean there is more money arriving in Bali. As a result more local Balinese have more money to spend. They can see the trend and they also buy residential property. This is fuelled by the steadily growing economy, but very low bank loan interest for property buyers. Buying property is becoming ever more feasible, although the property prices are steadily increasing. (We cannot compare this with the bursting bubble in USA, which lead to their crisis, because of **real** growth supporting the development in Indonesia).

In consequence, for years to come land prices throughout Bali are most likely continuing to rise at the already experienced growth rates. The demand is increasing, supported by ever more available capital and the non existence of capital gains tax.

- **High potential rental income (or positive cash flow)**

Can I receive a positive cash flow from my Bali property? Yes, you can and will. This is what makes all the more interesting. The magic numbers to express rental yield are 5% from renting a local standard house, and 8% from commercial space. For example if you have a local standard house with the value of \$50,000.- it is very reasonable to expect \$2,500.- per year, paid by locals. This is basic and easily achieved, but not all that interesting. Most foreign investors therefore look towards holiday accommodation rental. This kind of property naturally shows a much better yield.

For example, a 2 bedroom villa in Seminyak will easily be rented for USD 200,- per night, or USD 3,000.- per month, or USD 30,000.- per year. Naturally, the rental rates also increase regularly and over-proportionally to the current rate of inflation .

So, if you invest into a nicely appointed 2 bedroom villa, you will have to pay USD 300,000.-. If this villa is to be rented out on a daily basis with the rate of USD 200,-/night and occupancy rate of 60%, there will be USD 43,800.- generated as rental income. (No if's or but's).



This equals 14.6% from your total investment.

Regarding rental clients: Indonesian domestic tourists are the primary target market, followed by the Australian tourist as they make up 25% of all foreign tourists visiting Bali. Following are Indian and Chinese tourists as their numbers keep growing rapidly.

- **Low maintenance cost (repairs, renovation, staff wages)**

It is common knowledge that living cost in Indonesia are less than a third, compared to more developed countries. This also applies to the expenses for property maintenance.

You will know that in a tropical climate buildings need more frequent maintenance, depending on the building style and location, for example if near the sea. A thatched roof, such as 'alangalang' will last only in between 7 to 12 years before needing replacement. This would cost then about A\$ 25.- per sqm roof area.

A proper built minimalist style villa may only need painting every 5-8 years. However, if you bought a villa which shows the first signs of termite activity, you better have every three year the specialist coming, which will then add about A\$ 3.- per sqm treated area to your maintenance expenses.

However, we are looking at wages for experienced workers of only A\$ 8.- per day. Also quality imported paint is still 1/3rd less than in Melbourne or Singapore, despite import taxes. Same Brand. How do they do it?

Putting aside A\$ 100 - 150 per month for small repairs and/or regular maintenance will cover these expenses for an average sized home in Bali.

Now let's look into staff wages. Here is a good example: My gardener and his wife receive per month Rp 1.2 Million each (about A\$ 130.-). The housemaid, who cleans and washes, cooks Western and Indonesian food and I have to add, most deliciously so and who does most shopping, lives for free in the staff quarters on site. She receives A\$ 170.- per month. (In some urban areas you may allow for up to 50% more).

Now let's look into the **Legal Aspects**

## Leasehold Property title

A lease is achieving a temporary interest in the land only. The lease period is negotiated with the lessor. Commonly all lease payments for the agreed term are to be made upfront. Still, for a lease term of let's say 30 years, as a rule of thumb, you would pay only about half of the price as you would need for purchasing the same block of land outright.

However, all your improvements on the land revert at the end of the lease term back to the land owner. Excluded are non fixed improvements, such as 'knock down' house constructions.

The lease can be sub-contracted and in the early years of the lease term a financial gain is feasible. Towards the end of the lease term the contract may be difficult, if impossible to sell.

It will be valuable to have a clause in the lease agreement, stating that you have the right to extend the lease agreement once the initial period has expired. It is utmost important to agree on the lease rate for the extension period at the time of the first lease contract being made.



Often the average price of three comparable properties available for lease in the same area may be chosen to be the key to that value. If this is not applicable, the gold price or other standard commodities can be agreed upon to tie in the value for the lease extension.

Lease agreements are usually drawn up and legalized by a Notary, but are not registered with the Government Land Agency. However, strict laws are protecting the foreign or national lessee, making a lease a safe arrangement for the agreed period.

The **lease contract** is subject to 10% PPH taxation. As it is essentially an income tax, it is to be paid by the lessor who often is unaware of this obligation and may want to come back to the lessee when the tax falls due. The Notary and/or accountant can advise on the best way from the outset to keep your best interest in mind.

## Freehold property title

There are three kinds of feehold title:

a. **Hak Pakai** (The Right to Use)

A 'Right to use over Freehold' is a certificate which is granted by the National Land Agency (BPN) over freehold land.

This is giving the most secure way of controlling a property for the foreigner, because the foreigners name is actually stated as title owner in this so called Hak Pakai Certificate.

However, **land taxation** will apply to both, the underlying Freehold Title (Hak Milik) and the Right to Use (Hak Pakai) title, which is covering the freehold title. Taxes upon obtaining the Hak Pakai title are assessed according to the Government appointed Land Value NJOP (Nilai Jual Objek Pajak), which is considerably lower than the actual market value.

b. **Hak Guna Bangunan HGB** (Right to Use for Building)

The foreigner can set up a Foreign Investment Company (PT PMA). This Company does not need any Indonesian shareholder and is entitled to

own land under HGB title. This is a somewhat 'lesser' title than outright Freehold Ownership, because the initial freehold title is relinquished to the Government.

It is then replaced against a period of formerly 30 years, with the right to extend by another such period and so on. These periods are presently under review and may in future extend up to 75 years each period.

The HGB title allows the land to be used as per the Corporate Activity and to be built upon.

Before setting up such a PT PMA Company, mainly to facilitate property acquisition under the foreigners name, it needs to be understood, that the Government is regulating and monitoring such Companies.

For example, if after a number of years there are no reasonable tax returns reported, the Company may have to close and your search for ownership options starts again.

The PT PMA regulations require regular reporting of the business' development and an annual audit by an approved tax consultant. It is strongly recommended to seek detailed legal and taxation advice before deciding to own property via Corporate Ownership.

c. **Hak Milik** (Freehold Title)

This title is only available to Indonesian Nationals. To obtain land under Hak Milik means you will have to execute a 'Nominee Agreement' with an Indonesian Holder of your land to secure your interest.

Your advantage under this form of land title lies in the fact that you directly participate in the capital appreciation of the land.

You may select your Nominee by appointing a trustworthy Indonesian person, ask your Notary to recommend someone, maybe from his own office, or your property Agent's. It is worthwhile to search for a younger person with a transparent family background, as inheritance issues regarding every ones rights and duties are part of the Nominee Agreement.

**The Nominee Agreement** is to be legalized by a Notary.

Because there is no 'official' standard text available, it is absolutely essential to deal with experienced and proven professionals, who have over time eliminated loopholes and uncertainties in the still existing older text versions. All sad stories about foreigners who lost their property to scheming local people are based on poorly executed transactions and documentation. That does not have to be.

The text should be in English and Bahasa Indonesia, so that in the event of a legal dispute there is no misinterpretation.

The Nominee Agreement would be made up of the following sections:

- **The statement.**

Here it is declared who the intended real owner is and why the Nominee is lending his/her name for the transaction.

The obligations of the nominee are outlined – e.g. payment of taxes and contributions when due, applying for power, water and telephone connections, the building approval, further licenses, if commercial activity is planned, etc.

The nominee receives a one off amount at the beginning of the Nominee Agreement, to compensate for the substantial administrative duties in the first month' of establishing the new property.

(Average 'one off payment' in recent years = USD 1,000.- to 2,000.-)

At the end of the Nominee's service, e.g. when the property is sold on, he/she receives a percentage of the sales price. (Common are 1 to 2.5 %).

The Nominee declares to support the foreign owner by signing all consecutive documents as requested and without delay. Failure in doing so attracts a fine, e.g. forfeiting the final payout.

It is also stated that the rights and responsibilities of the agreement are passed on to the respective heirs.

- **The loan agreement.**

The nominee declares to have received the funds for the property purchase as a loan from the foreigner. A valid loan agreement needs to state the amount. This becomes a matter for your special attention, because as the property increases in value the loan amount should be adjusted periodically in an addendum.

The property becomes the collateral owed to the foreigner "with all improvements at the total value and at any point in time".

**Power of Attorney**

The nominee gives to the foreigner an irrevocable and transferable Power of Attorney to sell, sublease or otherwise dispose of or deal with the property and declares to represent the foreigner in any dispute regarding the property.

The Nominee will hand over all original titles and documents to the foreign investor.

He agrees that, should the law change to the disadvantage of the foreigner, the agreement automatically becomes a long term lease with all rights of land usage given to the foreigner and should the law change in favor of the foreigner, the nominee co-operates to pass on the ownership titles to the foreigner in accordance with the new law.

No **tax** is payable on a regular Nominee Agreement, other than the stamp duty fee of a few Rupiah. (Rp 6000.- in 2011).



Exemption: If a lease is taken out as security, 10% PPH taxes from the lease amount become due.

#### Additional security measures

The foreigner can take out a 'mortgage' on the property. This is not a mortgage as understood in western banking practice, but a block applied at the National Land Agency BPN, to the effect that the nominee cannot deal in any way with the property until this 'mortgage' is released by the foreigner. This 'mortgage' will be entered via a Notary. The fee is inexpensive. However, because a value needs to be assigned to the property, it is essential to either chose a value high enough to prevent the nominee to one day paying out the 'mortgage' and then being able to deal freely with the property, - or the value has to be adjusted periodically, let's say every 5 years.

No **tax** is payable on a mortgage.

### **c. Taxes, permits and community fees**

#### **• Buying and Selling Tax upon property transfer**

When buying a property, both vendor and buyer pay tax. The rate for each is 5% of the value appointed by the Taxation Department. This will be considerably less than the real transaction value. In 2011 the underlying tax ruling has been revised and at the time of writing this in January'12 there is still no tax table published. We just know from several transactions that it is prudent to estimate for the buyers tax about 2-3% of the actual transaction amount.

#### **• Annual property tax**

This amount relates to NJOP (the Government appointed value of the property). Indonesian land owners (remember we foreigners cannot directly hold freehold land) don't have the means to pay high land taxes. Therefore the property taxes are very reasonable seen from our view. However, the latest tax legislation is now looking at the actual market value of properties and is in the process of developing a formula, which may increase the low present tax levels up to four fold. This sounds a bit over done, -unless you look at the actual figures. The annual Land Tax bill for e.g. a 2000 sqm residential block still only amounts to about A\$ 80.-. For a standard villa on a freehold block of again the same size the tax would be around A\$ 350.-. (These are rough estimates).

#### **• Building Permit**

Every villa or building must have a building permit from the government. It is not difficult to apply, as there are many agents helping to process this building permit. In average, it will cost A\$ 500 - A\$ 2,500.- depending on the building size. There are some sub-categories, but what you should know for now is about the

#### **- Residential Building Permit**

This is the cheapest one. Only valid for residential purpose, and not valid for any accommodation business.

#### **- Small accommodation permit**



This permit allows you to establish a small accommodation business, accept guests staying in your property, and collect money from them.

- Hotel

This permit is needed only if you want to establish a hotel in Bali. The process will cost considerable money, time and effort as there will be some government institutions involved in the licensing process. In any case there will be fees over A\$ 5,000.-

• **Community fees**

Everyone, even Indonesian citizens, moving into a new 'Banjar' (smallest community unit in Bali with about 150 families under its umbrella) has to pay a 'welcome fee'.

The villages and banjars are entitled to make up their own local scale of fees. We can 'enter' some villages or areas with a once off payment of about 15 Million (A\$ 1700.-) and the highest we know of was double that amount. The villages do not receive much funding for road repairs and upkeep of public facilities and are dependent on these contributions.

There is also an annual local community tax. This can be the equivalent of 3 bags of rice or 5 geese. Really not worth fretting over as this donation is making you many friends in the area anyway. These contributions go towards the ceremonies and will be much discussed there relating to the greatness of the donor.

On occasions the local youth group will come and ask for help with the purchase of their new volley ball net and also the village security group (Pecalang) will ask for some minor financial support, still all in our perceived 'peanuts range'.

• **Banking regulations, Taxation**

The Indonesian Banking system is less regulated as, for example, the Australian.

Both, Commonwealth Bank and ANZ Bank have numerous branches in Bali, with Commonwealth Bank being more widely established. They are backed

by their Australian mother company, but have to follow the Indonesian Banking regulations.

In Indonesia foreigners can open their own account (Rupiah, Australian or US Dollar), if they provide a reference letter from a local business, which is easily organized.

Transfers from overseas in the value of over Rp 100 Million (about A\$ 11,500.-) have to show the reason for the transfer on the transfer form.

All deposits are guaranteed by the Government up to Rp 1 Milliard (about A\$ 115,000.-) per account.

Information about foreigner's accounts (and for that matter all other accounts too) will only be disclosed by the bank upon formal authorization from legal Authorities. This is to prevent drug trafficking or terrorist activity. No account information is disclosed to the Indonesian or any overseas Tax Department.

Again, there is no Capital Gains Tax in Indonesia.

**d. Building a home or villa**

Buying an existing villa or buying land and building on it, are two options with both advantage and disadvantage. However, in general building a villa yourself will save 15-20% compared to buying an existing villa.

To move the summary of this chapter right to the front: Construction of a house or villa in Bali will cost about 40% less than in the Western World. This is because of low fees, the low wages and also better prices for many building materials.

Because there is no local Authority looking over the builders shoulder one may be forgiven to be tempted cutting a few corners to save on material. This is not a good idea. The tropical conditions with strong rainfall, occasional earthquakes and also termites, require attention to detail. Most construction companies which are used to deal with us Westerners understand this .

Architect fees range from \$ 10.- to \$ 50,- per sqm built up area depending on their range of services, eg. overseeing the actual construction.

Building cost per sqm living area (including verandas) range from \$ 450.- to \$ 700.-, or more , depending on the level of luxury.

As long as land is not part of a designated green belt area, it will be straightforward to obtain a building license. As a pre requisite upon purchase, rural land has to be changed into residential status, which a professional realtor and notary will arrange as a matter of course. (However, any buying agreement covering rural land should carry the clause, that the purchase is null and void and all paid deposits are fully refundable, should the land conversion from agricultural to residential not being granted).

#### e. Expected return on investment

Local residential and commercial properties will clear 5% and 8% on average. As said before, holiday accommodation will give a better return of 10-15%. Operating the objects as daily rental will give better results, rather than renting it for longer periods such as monthly or yearly.

As overview, assuming that rental prices are not increasing, a villa owner can expect to get their full investment back in 7 – 8 years, from the rental income alone. By then the capital itself will be worth 200 – 300% of the initial investment.



- It goes without saying, that these figures apply to suitable locations and well chosen properties.

For example on an oversized block of land with an average house the ROI will be less and vice versa if a grand villa has been constructed on an ordinary small block. Ask your local agent for advice and double check.

### 1. Visa and other permits

#### a. Visa on Arrival

Australian visitors to Bali will be issued with a Visa on Arrival (VOA) at the Bali airport.

The visa on arrival is valid for 30 days at US\$25.- or US\$10.- for just a 6 days visit. The period of stay includes the day of arrival. Make sure you book your tickets for the correct duration, as there are penalties for overstaying your visa.

The visa can only be extended once for another 30 days. If you do plan on staying more than 30 days it might be more convenient to apply for a 60 days visa in advance.

#### b. Social Visa

The social/cultural visa is for people visiting Indonesia for social or cultural reasons or visiting friends and family. The visa does not allow to work.

The visa is good for a stay of 60 days, but can be extended four times on a monthly basis, for a maximum stay of 6 months. To apply for a renewal, you need to apply at Immigration at least one week before the current visa expires.

You need to have an Indonesian National to sponsor the visa. You also need a copy of your sponsor's KTP (ID card) and an invitation letter, signed by your sponsor. This visa costs US\$25.- to US\$150.-.

### c. Business Visa - Single Entry

The business visa is for people visiting Indonesia to conduct business, or attending seminars and meetings, but not taking on employment in the country.

The maximum stay is 60 days, but the visa can be extended to a total of 6 months. The visa requires a sponsor in Indonesia and a statement from that company explaining the purpose of your trip. If you process this visa through an agent, they will provide all documents needed. This visa costs approx US\$ 250.- including the agent's fee.

### d. Business Visa - Multiple Entry

The purpose of this visa is for business activities in Indonesia which do not involve taking up employment. Sponsorship is required by an Indonesian Company. You will get a 60 days free stay permit, monthly extendable through Immigration to a maximum of 12 months. Within those 12 months you must leave the country at least once after 6 months. If you process this visa through an agent, they will provide all documents needed. This visa costs approx US\$ 300.- including the agent's fee.

### e. Working permit visa / KITAS

To work legally in Bali a working visa (KITAS) is required. Most foreigners running their own business in Bali create a company which then sponsors them for the visa or get a sponsorship from an Indonesian based company.

The cost of the visa is US\$1,200.- per year, not including the costs for administration by a visa agent (his fee is approx US\$500.-).

The application for the working visa can be made in Indonesia, but once it is approved, you need to pick it up from an overseas embassy.

This visa is valid for 12 months, and can be extended unlimited by consecutive 12 months' periods without having to leave Indonesia.

### f. Retirement Visa

Indonesia offers a retirement visa for people over the age of 55 to reside in the country. Bali is becoming a popular place for retirees, with it's low cost of living, warm tropical climate, relative proximity to Australia and some beautiful and affordable villas to stay in.

The basic requirements include, being at least 55 years of age, having a pension or retirement income of at least US\$1,500.- / month, medical insurance and employing at least one maid in Indonesia. (These official conditions are not checked by the Government and therefore often not met).

The visa is valid for one year and can be extended for a maximum stay of five years. After this it needs to be renewed.

The cost of the visa is US\$ 600.- per year, not including the costs for the agent who assists with the visa application.

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If you read that far, you are now very well equipped to decide if in your situation Bali can bring you the Good Life and offer you a sound investment too. There may be other specific questions.

Feel free to ask any of us at [info@ubudproperty.com](mailto:info@ubudproperty.com)

Thank you ! Ray

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