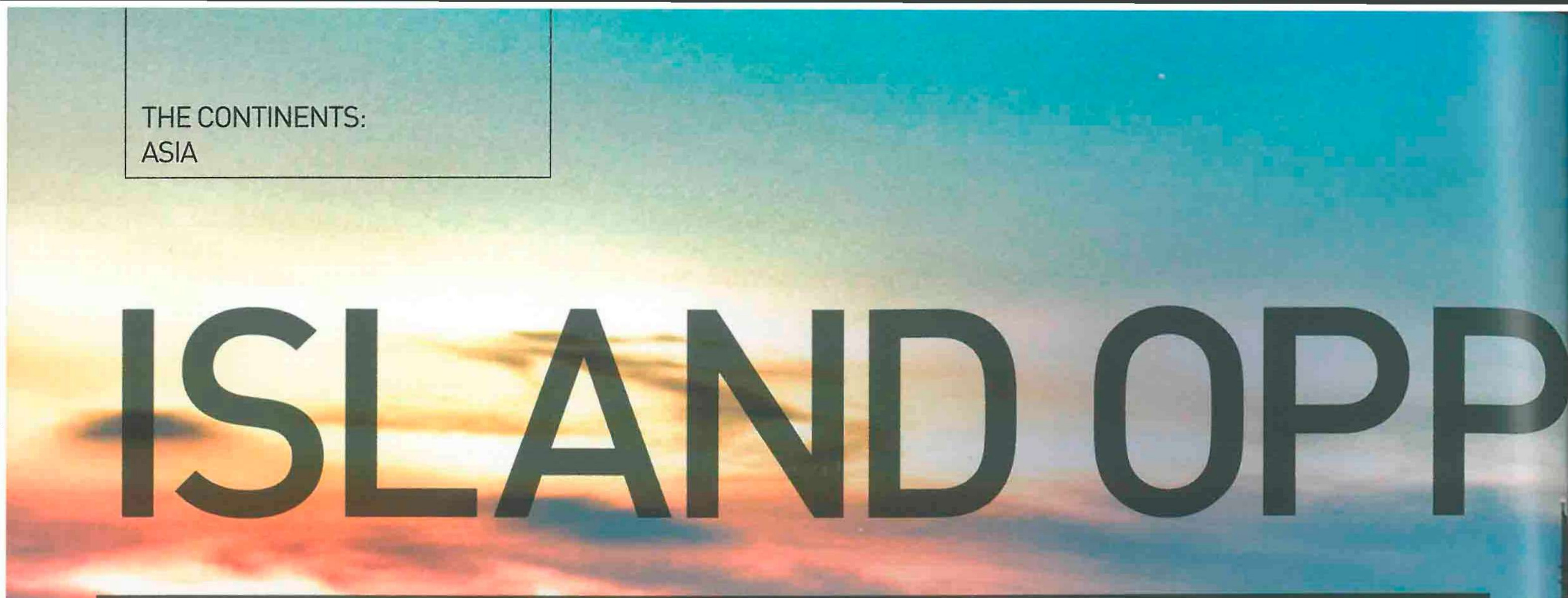

ISLAND OPP

Step out of Jakarta airport and one of the first things that strikes you is the vast swathe of people coming and going in all directions on frenzied, gridlocked roads.

Head to one of the other 13,000 islands in Indonesia's archipelago, and you can find sleepy fishing villages, golden beaches and bustling tourist spots. Indonesia is a country of immense contradictions, and therein lies much of its appeal – and opportunity.

But after five years of exponential growth, is there still an appetite to invest in Indonesian real estate? Or is the window closing fast?

Looking at the growth figures, it seems as though it will take more than a GDP slowdown to knock this market off the map. Java, home to the capital of Jakarta, is a thriving business hub, and the main business district for the region. With more working-age people than ever before (the average age is 29), Indonesia could be one of the world's five largest economies by 2030, according to consultancy PwC.

The country has also seen huge growth in the real estate market, with prices more than doubling since 2009. Since sweeping to power last year, president Joko Widodo has been promoting the country as a home for international investment – particularly as its economy has been hit by the price of global commodities, which make up more than half of the country's exports.

Construction costs remain among the cheapest in Asia, while the country has a huge group of middle-earners (set to double again in the next five years), and an undersupply of good quality grade-A offices to put them in.

Then there is the fact that Jakarta's first metro line is scheduled to open in 2018, which will make a huge difference to commuters – many of whom spend hours getting home on gridlocked roads. It is also expected to boost values in adjacent areas by around 30-40%, according to Knight Frank.

The market reached dizzying heights in 2013 when a report from PwC and the Urban Land Institute placed Jakarta as the top investment destination in Asia; the city soared to the top from 11th place the year before.

This was in the middle of a buying frenzy in Indonesia. With prices rising faster than almost any other market in Asia, purchasers rushed to buy.

"The market was really strong for several years, and booming through 2011 to 2013," says Todd Lachlan, country head for Indonesia at JLL. "Land prices increased by at least two to three times in that time.

"The office market tripled in terms of grade A, and almost doubled for grades B and C."

But those rapid rates of growth have dissipated. "Residential prices have gone up 300% or 400% since the global financial crisis, so that easy money has already been made," says Dougie Crichton, technical adviser at Farpoint Prima, the real estate subsidiary of Indonesian conglomerate Gunung Sewu Kencana. "Resi rates came from a very low base – they were extremely cheap compared to other places in Asia. Now I think they are more or less equal with Kuala Lumpur. There is still growth but not the huge jump we saw from the crisis up until last year."

But experts are not despondent at these slowing rates. JLL's Lachlan describes the current market as a more "natural real estate market", steady and with more realistic asset pricing.

And the Indonesians' ability to buy remains on an upward trajectory. The average level of personal wealth has increased fourfold since the year 2000, according to the Credit Suisse Global Wealth Report, with apartments seen as a desirable investment offering capital gains of between 10% and 25% and rental yields of between 6% and 8% pa. Purchasers are also predominantly buying in cash, although the government has recently also announced plans to expand mortgage lending.

"The people buying tend to finance their purchase through cash, not a mortgage. They are fairly wealthy and want to keep it for the long term. So there is no panic, and no great price correction expected," says Crichton.

This pent-up wealth is a key motivator for international investors; interest remains strong, and this year's PwC and ULI report quotes one investor saying Indonesia is "the one market where I still hear the same amount of interest as before".

"There are still opportunities for funds looking at Indonesia; the problem is finding the right opportunity," adds Lachlan.

A small but growing focus has turned to Indonesia's emerging cities, such as Surabaya, Medan and Bandung, locations with international airports, rail links or seaports, and the presence of international hotel brands such as Hilton.

And as with many Asian markets, logistics has been a hot topic for Indonesia. Cikarang, for example, is home to one of Java's key cargo handling sites and a 494-acre dry port.

The number of internet users in Indonesia has risen by 150% a year over the past decade to reach 90m, and while e-commerce has yet to take off the way it has in China and other Asian markets, analysts expect future growth, meaning more warehousing and logistics infrastructure.

"It could well be one of the big areas for anyone who wants to get a foot on the ground now, before the market develops," says Lachlan.

With a government poised to open up the market to foreign buyers, and Indonesia's young population and growing wealth, there are still many opportunities for savvy real estate investors to hunt out the best opportunities.

ORTUNITIES

AFTER YEARS OF RAPID GROWTH, INDONESIA'S ECONOMY SHOWS SIGNS OF SLOWING – BUT INVESTORS ARE STILL BEING ATTRACTED TO THE ENERGETIC AND YOUTHFUL COUNTRY. HELEN ROXBURGH REPORTS