RESEARCH

SECOND HALF 2008

JAKARTA PROPERTY HIGHLIGHTS

Knight Frank

- The global economic crisis began to take effect in last quarter of 2008, although Indonesian GDP still managed to grow by 6.1% as of December 2008. Liquidity issues and the weakened rupiah have delayed the completion of developments in all sectors. Only projects with high levels of pre-commitment or are in the final stage of development will continue to enter the market in 2009.

- The market has softened in all sectors, the condominium sector has been the hardest hit with sales reportedly dropping by 20-30% during the final quarter of 2008. The retail and hotel sectors recorded a slight decline in occupancy rates, whilst the office sector remained stable at the end of 2008.

- The weakened rupiah against the US$ has pushed the average room rate of 3, 4 and 5 star hotel rooms down by 16.63% in US$ terms. Whilst retail rental rates fell by 12.75% and almost 5% for office and rental apartments respectively. However, the office and apartment sector showed rental growth in Rupiah terms, with the exception of hotels sector which saw a decline of 1% whilst retail remained stable.

- Liquidity, high interest rates, business confidence levels and the general and presidential elections are some of the underlying factors that will effect property development in 2009.

ECONOMY AT A GLANCE

Indonesia maintain stable economic growth

The global financial crisis begun to take effect in the final quarter of 2008, but the Indonesian economy still managed to grow by 6.10%. However, rising interest rates and weakened rupiah raise concern over sustaining business momentum.

Steady GDP Growth

The Indonesian economy still managed to grow by 6.10% (y-o-y) in 2008, slightly less than 2007`s figure of 6.32%. This stable growth was partly attributed to strong underlying fundamentals and private consumption, which contributed 56% based on 3rd quarter of 2008 data.

Major exporters such as the textiles, electronics and timber industries are suffering heavily from the global financial crisis. A series of layoffs took place during the last quarter of 2008 and are becoming a common phenomenon in a number of industries.

The Government has projected that Indonesian GDP growth will drop to between 4% - 5% due to the further impact of global economic decline in 2009. Private consumption would still be the major contributor in 2009, but it is estimated to decrease due to lower purchasing power.

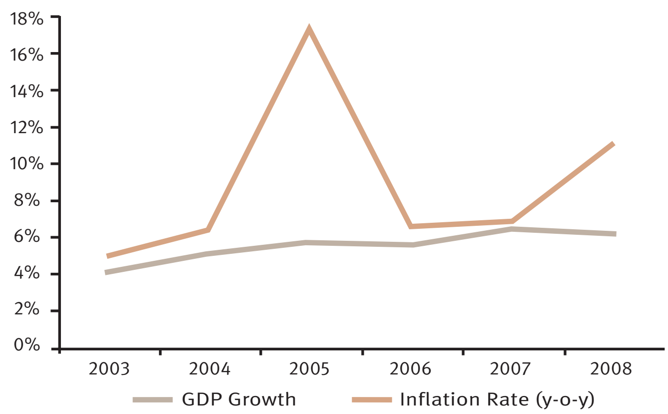
Rising Inflation

The inflation rate soared to 12.14% in September 2008 due to the significant increase in oil prices that lead to an increase in food prices. In December 2008, the inflation rate decreased slightly to 11.06% as a result of government intervention to lower fuel prices by approximately 16%, in line with the drop in global oil price. However, prices increased in several commodities including food and utilities.

Meanwhile, prices fell in areas such as transportation, communication and financial services in December 2008. The driver of this deflation has been the sharp decrease in global oil prices to around US$40 per barrel in December 2008, due to slower demand in developed countries.

The Central Bank of Indonesia estimated that in 2009 the inflation will declined further to 5% - 7.5% in line with the decrease in fuel and commodity prices.

Figure 1
GDP Growth vs. Inflation Rate
(2003 - 2008)



Source: Central Bank of Indonesia

Weakened Rupiah

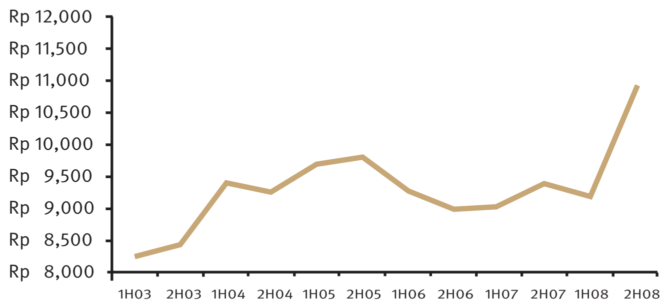
By the end of November 2008, the Rupiah reached its lowest rate of Rp 12,400 to the US$, a fall of 33.46% compared to January 2008. This was due to a high demand for dollars as a shift from emerging countries, such as Indonesia, to developed countries, most notably the US became evident, which in turn led to rupiah depreciation. At the end of December 2008, the Rupiah's exchange rate was recorded at Rp 10,950, a rally of 11.69% from its lowest point. The strengthening of the currency is partly because of the Central Bank's intervention to limit the purchase of dollars and also the drop of global oil prices.

Both the government and independent economists estimate that rupiah will stabilize between Rp 10,000 – Rp 11,500 against US$ in early 2009. Furthermore, they believe rupiah will gradually strengthen to a more typical rate at the end of 2009.

Figure 2

Exchange Rate (Rp / US$1)

(1H 2003 – 2H 2008)



Source: Central Bank of Indonesia

Downtrend of Interest Rate

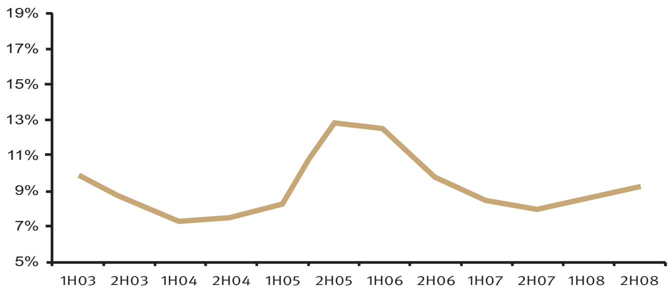
In the 2nd half of 2008, The Central Bank of Indonesia gradually raised the BI rate from 8.5% in June 2008 to 9.50% in November 2008 with the aim of safeguarding the economic stability of Indonesia. In December 2008 the Central Bank decided to lower the BI rate by 25 bps to 9.25% to sustain business momentum amid the global economic slowdown.

Unfortunately, the lowered BI rate was not followed by a fall of wider lending rates. Business uncertainty and the reluctance of banks to give credit are the main reason for high lending rates. The difficulty in obtaining has effected the level of property development as a number of projects were reportedly postponed/delayed in the last quarter of 2008.

Figure 3

Interest Rate (BI Rate)

(1H 2003 – 2H 2008)



Source: Central Bank of Indonesia

Foreign Investment Surged

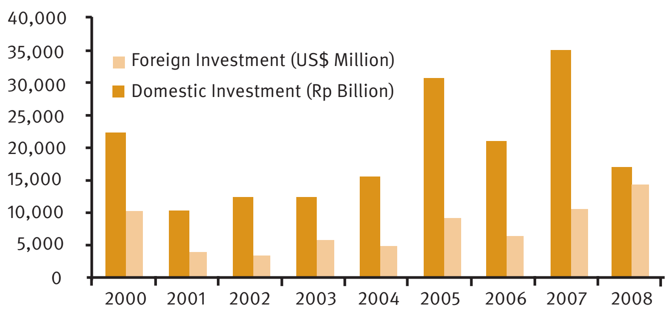
As of December 2008, foreign investment realization has increased by 43.8% to US$ 14,871.4 million compared to the same period in 2007. This was the highest recorded for the last ten years. While, domestic investment decreased by 41.6% to Rp 20,363.4 billion. The decrease in domestic realization was partly due to the usage of foreign vehicles for domestic investors to minimize tax exposure.

Indonesia's Investment Coordinating Board predicted that 2009 will be a tough year for investment due to the general and presidential elections and further fall out from the global economic crisis. Investment in 2009 is expected to be driven largely by the infrastructure and mining sectors. The Government has allocated capital expenditure for infrastructure projects aimed to maintain people purchasing power and provide employment opportunities.

Figure 4

Investment Realization

(2000 – 2008)



Source: Investment Coordinating Board

SECOND HALF 2008
JAKARTA PROPERTY HIGHLIGHTS

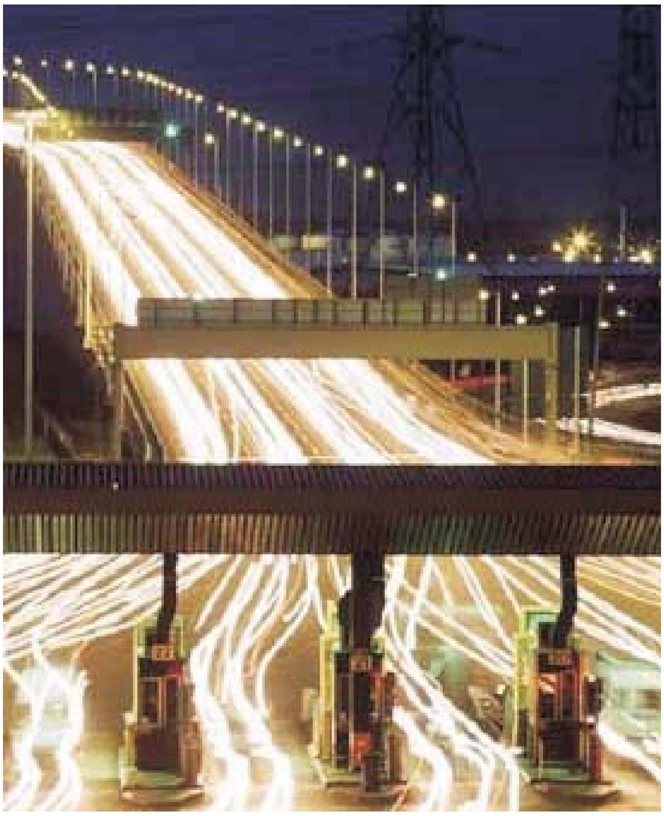
Table 1
Economic Indicators (Year 2003 - 2008)

Indicator	2003	2004	2005	2006	2007	2008
GDP[1]	4.07%	5.03%	5.60%	5.50%	6.32%	6.10%
Inflation[2]	5.06%	6.40%	17.11%	6.60%	6.59%	11.06%
BI Rate	8.39%	7.43%	12.75%	9.75%	8.00%	9.25%
Exchange Rate (per US$-end of year)	Rp 8,465	Rp 9,290	Rp 9,830	Rp 9,020	Rp 9,419	Rp 10,950
Foreign Investment Planning Realization						
No. of Projects	570	544	909	801	982	1,138
Value (US$ Million)	5,450	4,601	8,915	5,977	10,341	14,871
Domestic Investment Planning Realization						
No. of Projects	119	129	214	145	159	239
Value (Rp Billion)	11,890	15,265	30,665	20,788	34,879	20,363

Source: Processed from multiple sources by Knight Frank/PT Willson Properti Advisindo
[1] at year 2000 constant prices
[2] since June 2008, BPS used consumption pattern obtained from 2007 Cost of Living Survey in 66 cities (2007=100)

Proposed Government Actions to Stimulate Economic Growth

BI Rate
The Central Bank of Indonesia is planning to further reduce the BI rate to stimulate growth. The Government is expected to lower the BI rate by 150 bps in the first semester of 2009. The action will have a great impact if supported by other policies such as domestic market protection and restructuring non performing loans.



Infrastructure Projects
The Government has budgeted up to Rp 100 trillion (about US$ 9.95 billion) to finance infrastructure projects as a way to safeguard the economy from the impact of the global crisis. The funds will be used to develop ports, railways, water irrigation systems, bridges, and so.

VAT Exemption & Import Duty Relief
The Government has determined 31 sectors to allocate fiscal stimulus. Seventeen sectors will get VAT exemption to a total value of Rp 9.02 trillion. Meanwhile, another 9 sectors will get import duty relief with the total value of Rp 2.4 trillion.

CBD OFFICE MARKET

Softening market in all grades

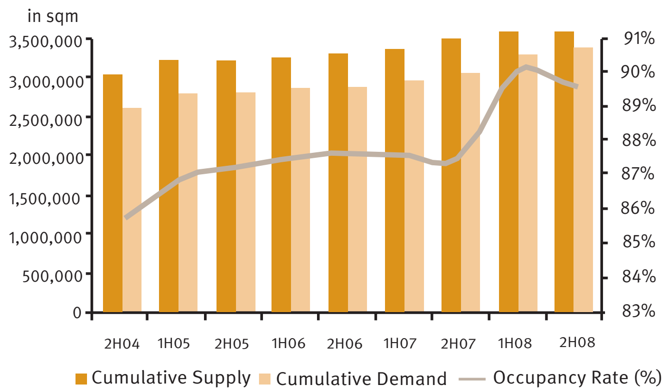
After experiencing a record high in the first half of 2008 since the onset of the economic crisis in 1998, office demand softened in the second half of the year, although overall occupancy remains stable. Rental rates, as well as price of strata-title offices, increased in Rupiah terms as a result of the currency weakening.

Slowdown in Supply Growth

Total stock at the end of 2008 increased to 3,782,038 sqm with the completion of Menara BCA and the City Tower.

The completion of some projects that were originally scheduled in 2008 were delayed to 2009. Total supply in-the-pipeline in 2009-2011 comprises 694,378 sqm. About 51% of this proposed supply is expected to complete in 2009. Based on the type of office space, 49% of the proposed supply comprises rental office buildings, 38% represents strata-title offices and the remaining 13% of proposed supply offer both rental and strata-title office space.

Figure 5
Jakarta CBD Office Market Supply and Demand
(2H04 - 2H08)

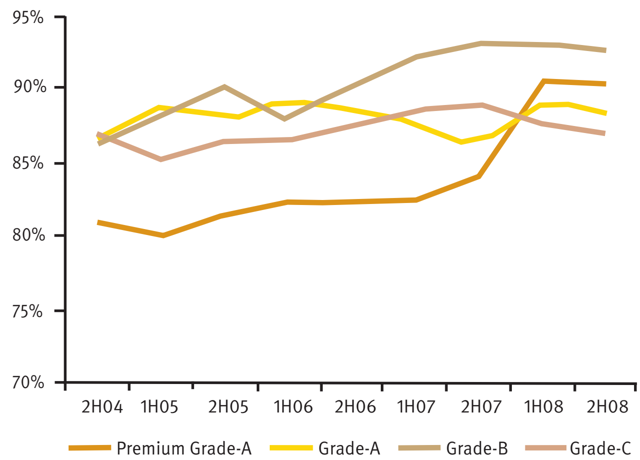


Source: Knight Frank / PT. Willson Properti Advisindo

The global financial crisis is anticipated to slow down the construction of certain projects. Buildings that are still in the early stages of construction and have not secured pre-commitments from anchor tenants may experience delays in completion

Demand softening

Figure 6
Occupancy Rate by Office Grade
(2H 2004 - 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

Overall CBD occupancy remained stable at 89.61%, leaving 392,842 sqm space vacant. All sub-markets recorded a slight decline in occupancy. However, the modest decline of occupancy in the Premium Grade-A and Grade-A sub-markets was due to the completion of new supply. As at December 2008, the occupancy rate was 90.42% for Premium Grade-A, 88.52% for Grade-A, 92.80% for Grade-B and 87.17% for Grade-C.

The second half of 2008 achieved a net take-up of 89,435 sqm. All net demand occurred in the Premium Grade-A and Grade-A sub-markets, whilst Grade-B and Grade-C sub-markets recorded slightly negative net take-up. Active business sectors include banking, trading, oil and mining, telecommunications and entertainment.

Table 2
Future Office Supply Completion Schedule (Year 2009 - 2011)

Year	Office Name	Lettable Area	Location	Type
2009	Menara Palma	35,000 sqm	H.R. Rasuna Said	Lease
2009	Graha Energi	65,283 sqm	Sudirman	Lease
2009	Menara Bakrie	70,000 sqm	H.R. Rasuna Said	Strata
2009	Menara Dea II	14,500 sqm	Mega Kuningan	Lease
2009	Cyber 2	48,000 sqm	H.R. Rasuna Said	Strata & Lease
2009	Sudirman Tower	26,000 sqm	Sudirman	Lease
2009	Thamrin Nine (UOB Plaza)	40,000 sqm	Sudirman	Strata & Lease
2009	The Plaza	57,130 sqm	M.H. Thamrin	Lease
2010	Sentral Senayan 3	50,000 sqm	Asia Afrika	Lease
2010	Kota Kasablanka	49,065 sqm	Cassablanca	Strata
2010	Life Tower	49,600 sqm	H.R. Rasuna Said	Lease
2010	Equity Tower	79,800 sqm	SCBD	Strata
2010	Chase Tower II	50,000 sqm	Sudirman	Lease
2011	Kuningan City	69,000 sqm	Prof.Dr. Satrio	Strata
	Total	**694,378 sqm**		

Source: Knight Frank / PT. Willson Properti Advisindo

Overall, 2008 witnessed an impressive market performance, as shown by an increase in both leasing and investment activities. Total net take-up for 2008 was 332,007 sqm, comparable to the peak market performance prior to the economic crisis throughout Asia in 1998.

Nevertheless, despite the record high take-up, the market has been starting to feel the pinch of the global financial meltdown since the fourth quarter of the year. Some companies that originally planned to locate new businesses in Jakarta have postponed their plans. Meanwhile, existing businesses have become more cautious in their expansion plans.

Table 3
Jakarta CBD Office Market Highlights 2H - 2008

Office Type	Total Existing Supply	Occupancy Rate	Vacant Space
- Rental Office	3,172,230 sqm	89.71%	326,347 sqm
- Strata Office	454,786 sqm	85.68%	65,134 sqm
- Owner Occupied Office	155,021 sqm	99.12%	1,361 sqm
Total	**3,782,038 sqm**	**89.61%**	**392,842 sqm**

* Some portion of strata-title office space have been offered for lease
Source: Knight Frank / PT. Willson Properti Advisindo

Rents and Prices Hike in Rp Term

As the Rupiah exchange rate depreciated to Rp 10,950 per US Dollar at the end of December 2008 in response to the financial crisis in the US, gross rentals in Grade-A, Grade-B and Grade-C sub-markets declined in US Dollar terms, despite their increase in Rupiah terms. Only the Premium Grade-A sub-market managed to book an increase in gross rents, both in Rupiah and US Dollar terms, as premium office buildings offer their rents in US Dollars.

At the end of 2008, average asking gross rents in the Premium Grade-A, Grade-A, Grade-B and Grade-C sub-market were US$23.08, US$16.61, US$12.16 and US$9.45 per sqm per month, respectively.

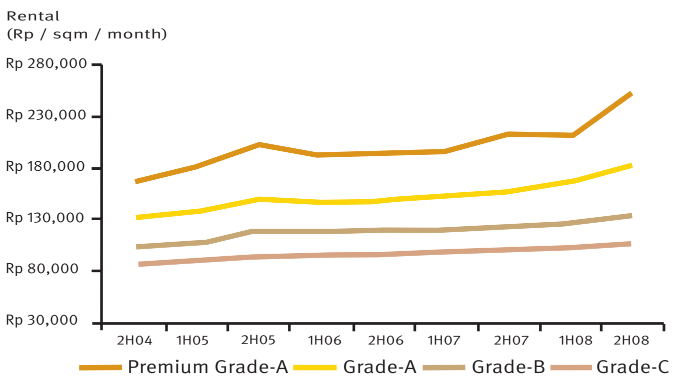
As the impact of the global credit crisis has softened demand, landlords have become more flexible in their negotiations and lease terms have become shorter.

Table 4
Asking Base Rental Rates and Service Charges by Office Grade (2H 2008)

CBD Office Grade	Base Rental / sqm / month		Service Charge / sqm / month		Gross Rental / sqm / month		Changes from 1H 2008	
	Rupiah	US$	Rupiah	US$	Rupiah	US$	Rupiah	US$
Overall CBD	Rp 122,165	$ 11.16	Rp 61,886	$ 5.65	Rp 184,031	$ 16.81	11.08%	-5.8%
Premium Grade-A	Rp 177,126	$ 16.18	Rp 75,591	$ 6.90	Rp 252,717	$ 23.08	20.6%	1.6%
Grade-A	Rp 120,212	$ 10.98	Rp 61,639	$ 5.63	Rp 181,851	$ 16.61	9.3%	-7.9%
Grade-B	Rp 81,095	$ 7.41	Rp 52,058	$ 4.12	Rp 133,152	$ 12.16	4.7%	-11.8%
Grade-C	Rp 64,989	$ 5.94	Rp 38,541	$ 3.52	Rp 103,530	$ 9.45	0.2%	-15.6%

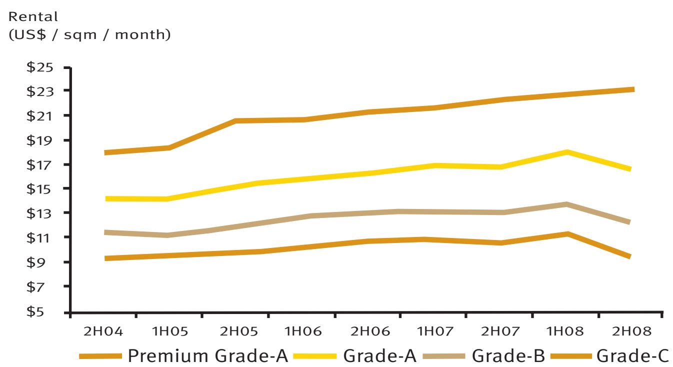
US$1 = Rp 10,950
Source: Knight Frank / PT. Willson Properti Advisindo

Figure 7
Asking Gross Rental Rate in Rupiah Term by Office Grade
(2H 2004 - 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

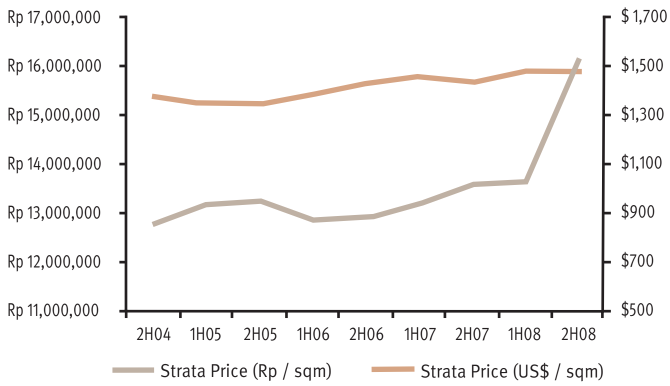
Figure 8
Average Gross Rental Rates in US Dollar Term by Office Grade
(2H 2004 - 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

The average asking price of strata-title office buildings remained stable at US$ 1,475 per sqm. As most of the new strata-title office buildings are marketed in US Dollars, the sudden depreciation of Rupiah has escalated the average Rupiah asking price to Rp 16.15 million per sqm.

Figure 9
Average Asking Selling Price of Strata-Title Office
(2H 2004 - 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

Market Outlook

The emerging global financial crisis is likely to impact the office market throughout 2009. Office demand will once again come almost solely from tenant relocations and demand from new business formation will be scarce. Companies will reconsider at their previous expansion plans and are likely to take a more cautious business approach.

On the supply side, projects that have managed to secure pre-commitments from anchor tenants and are scheduled to finish construction in 2009 are likely to be completed as scheduled. However, in the cases of projects that have not secured large pre-commitments and are still in the early construction stage, developers may need to revisit their project planning.

In view of softening market prospects, as both tenants and landlords are still reviewing their situation carefully, average rents are expected to remain stable in Rupiah terms in the first half of 2009.

RETAIL MARKET

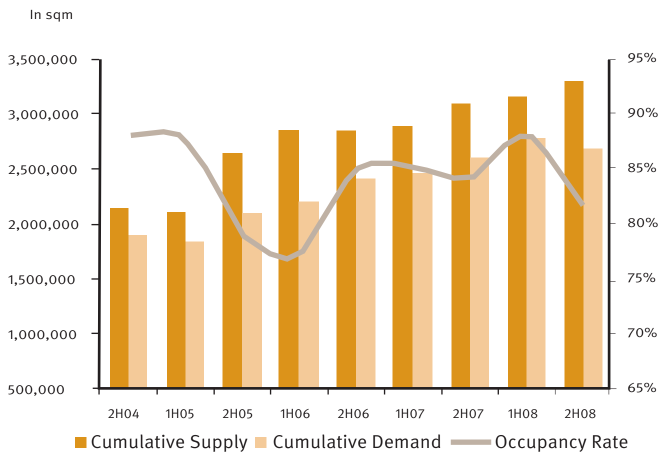
The retail market dipped down

The retail market is severely affected by the global financial crisis notwithstanding the continued large supply coming to the Jakarta retail market. There has been an immediate effect on electronics and branded fashion retailers, who reportedly saw a drop in sales, whilst the food and beverage sector remained stable. During the review period the overall occupancy rate dropped, only Premium Grade A malls enjoyed an increase in occupancy rates.

Aggressive Supply Growth

Figure 10

Jakarta Retail Market , Supply, Demand and Occupancy (2H04 - 2H08)



Source: Knight Frank / PT Willson Properti Advisindo

Over the last few years we have seen malls developed at a rapid pace. Malls have emerged as a place for family recreational activities. Rising disposable incomes, young population growth and limited avenues for recreation are some factors which will continue to fuel the growth of the mall culture.

Two new malls which commenced operation during the review period are the 100,000 sqm Mall of Indonesia, which is located in the Kelapa Gading area with Centro department store and Carrefour as its anchor tenants, and the 40,000 sqm Pejaten Village located in the Buncit area, with Hypermart and Matahari as its major tenants.

As of December 2008, the overall retail stock stood at 3,294 million sqm. Leased centres continued to dominate the total retail space inventory with 55.5% or 1,829 million sqm. By grade, the existing Premium Grade-A centres dropped their share from 13.25% of leasable stock during the last semester to 12.70%, whilst the existing Grade-A centres stood at 11.80%. Grade-B retail centres took the largest proportion with 47%, followed by Grade-C retail centres with 28.4%.

Around 14 malls with a total lettable area of 730,532 sqm are projected to be completed between 2009-2011. About 55% of this proposed supply is expected to enter the market in 2009. Based on mall type, 83% of the proposed supply comprises leased shopping centre space, whilst 17% represents strata-title retail. Some future projects have been delayed, especially by those developers that could not secure major tenants or on projects that are currently in the early stages of development.

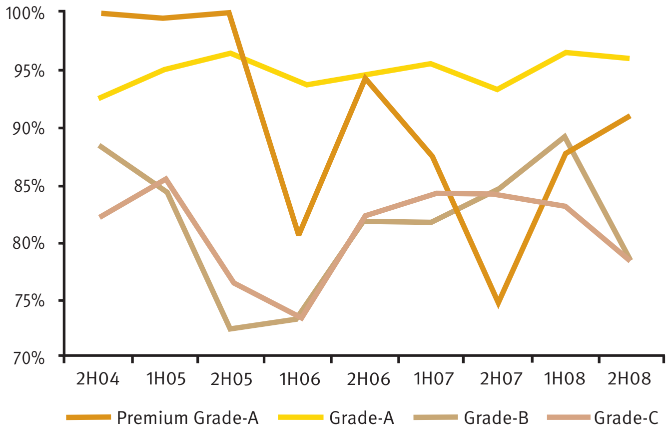
Table 5
Future Supply Completion Schedule (2009 - 2011)

Year	Project Name	Retail Type	Location	Total Suppjy
2009	Grand Paragon	Lease	Non CBD	40,000 sqm
2009	Plaza Indonesia 2 - Extension	Lease	CBD	25,000 sqm
2009	Blok M Square	Strata	Non-CBD	40,000 sqm
2009	Thamrin Nine	Lease	CBD	30,000 sqm
2009	Seasons City (Previously Latumanten City)	Strata	Non-CBD	60,000 sqm
2009	Epicentrum Walk (Rasuna Episentrum)	Lease	CBD	26,500 sqm
2009	Plaza Emporium CBD Pluit	Lease	Non-CBD	64,000 sqm
2009	Central Park at Tanjung Duren	Lease	Non-CBD	115,000 sqm
2010	Pasar Tanah Abang Blok B	Strata-title	Non-CBD	25,000 sqm
2010	Gandaria Main Street (Gandaria City)	Lease	Non-CBD	75,000 sqm
2010	Kemang Village	Lease	Non-CBD	55,000 sqm
2010	Citylofts Gajah Mada (Previously Galeria Glodok)	Lease	Non-CBD	13,000 sqm
2011	Kota Kasablanka	Lease	Non-CBD	82,032 sqm
2011	Ciputra World in Satrio	Lease	CBD	80,000 sqm
	Total			**730,532 sqm**

Source: Knight Frank / PT. Willson Properti Advisindo

Demand Under Pressure

Figure 11
Occupancy Level by Grade
(2H04 - 2H08)



Source: Knight Frank / PT. Willson Properti Advisindo

During the 2nd Half of 2008, new international retailers that opened outlets in Premium Grade-A malls in Jakarta included Harvey Nichols, Channel Boutique and Dorothy Perkins, which brought the overall occupancy of Premium Grade-A malls from 87.49% to 91.13%. Whilst the occupancy of Grade-A, Grade-B and Grade-C malls declined to 95.63%, 77.79% and 78.05% respectively. Overall, the occupancy rate dropped from 87.99% at the end of H1 2008 to 81.66% at the year end. Strata title shopping malls continued to be the largest contributor of vacant space, contributing approximately 371,000 sqm or 61% of the total.

Some landlords have converted their strata title space to office accommodation or are considering to buying back and operating as their ventures as leased malls in an effort to fill up the space.

Table 6
Jakarta Retail Market Highlights (2H - 2008)

Retail Type	Occupancy Rate	Total Existing Supply
- Rental Space	87.27%	1,829,810 sqm
- Strata-title Space	74.66%	1,464,333 sqm
Total	**81.66%**	**3,294,143 sqm**

*Part of the strata-title space has been offered for lease
Source: Knight Frank / PT. Willson Properti Advisindo

As for retailers, the current global crisis has reportedly had an immediate effect on their sales, those relying on imported goods such as electronics and branded fashion goods suffered the most as a result of weakened rupiah against US Dollar. Some have been pushed to offer aggressive and longer periods of discounting to attract declining visitor spending.

The trend toward malls as a place for family recreational activities has had a positive impact on the food and beverage retailers, which reportedly recorded only a slight fall of sales. We foresee this group of retailers to be resilient during the crisis.

Table 7
Asking Base Rental Rates and Service Charges of Prime Ground Floor by Shopping Center Grade (2H 2008)

Shopping Center Grade	Base Rental / sqm / month		Service Charge / sqm / month		Gross Rental / sqm / month		Changes from 1H 2008	
	Rupiah	US$	Rupiah	US$	Rupiah	US$	Rupiah	US$
Overall	Rp 596,232	$ 54.45	Rp 74,175	$ 6.77	Rp 670,407	$ 61.22	-2.19%	-12.75%
Premium Grade-A	Rp 1,092,258	$ 99.75	Rp 110,105	$ 10.06	Rp 1,202,363	$ 109.80	-1.13%	-13.65%
Grade-A	Rp 659,569	$ 60.23	Rp 73,610	$ 6.72	Rp 733,179	$ 66.96	0.69%	-14.02%
Grade-B	Rp 404,584	$ 36.95	Rp 63,416	$ 5.79	Rp 467,999	$ 42.74	-7.71%	-8.03%
Grade-C	Rp 255,093	$ 23.30	Rp 50,483	$ 4.61	Rp 305,579	$ 27.91	-0.54%	-15.08%

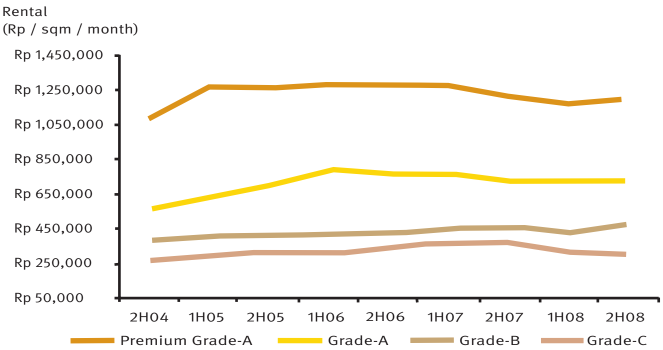
US$1 = Rp 10,950
Source: Knight Frank / PT. Willson Properti Advisindo

Asking Gross Rents Stable in Rp Term

By the end of 2008, overall gross rental rates in rupiah terms remained relatively stable, standing at Rp 670,407, while the gross rental rate in US Dollar terms dipped by about 12.75% as a result of the weakened rupiah.

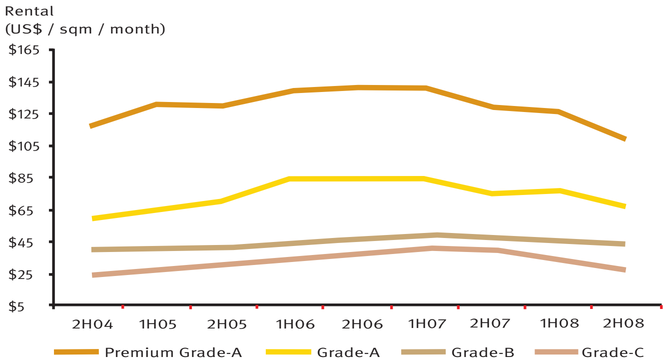
Premium Grade-A and Grade-A rents in rupiah terms remain relatively unchanged, while its rental in US Dollar terms dropped to 13.65% and 14.02% respectively. Grade-B rents in Rupiah term have risen by 7.71%, while in US Dollar terms rents dropped by approximately 8%. The increase in Rupiah terms for Grade-B mall space was due to the repositioning of Pluit Village (previously Mega Mall Pluit). Grade-C rental rates in Rupiah remain stable, while in US Dollar terms the rents suffered, dropping about 15%.

Figure 12
Asking Gross Rental Rates in Rupiah by Grade
(2H04 - 2H08)



Source: Knight Frank / PT. Willson Properti Advisindo

Figure 13
Asking Gross Rental in US Dollar by Grade
(2H04 - 2H08)



Source: Knight Frank / PT. Willson Properti Advisindo

Market Outlook

With around 8 malls (totaling over 400,500 sqm) slated to be operational in 2009, a risk of supply outstripping demand is envisaged.

Economic contraction is anticipated in 2009, hence lower spending power, will add pressure on developers to adjust their rental expectations as well as terms of payment as retailers reconsider their business/expansion plans. The occupancy level is also projected to drop further.

Having said that those malls located in favorable locations, have the right retail mix, a well thought out operational and marketing strategy are expected to outperform their competitors.

CONDOMINIUM MARKET

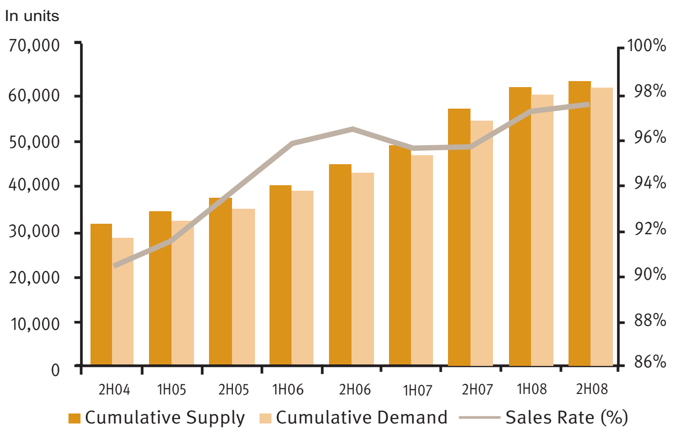
Dashed by financial market

The global financial meltdown has begun to threaten the condominium sector, obstructing access to credit for buyers, developers and investors. The market has started to witness a slowdown in development and sales activity, both in the primary and secondary markets.

New Supplies Plunge

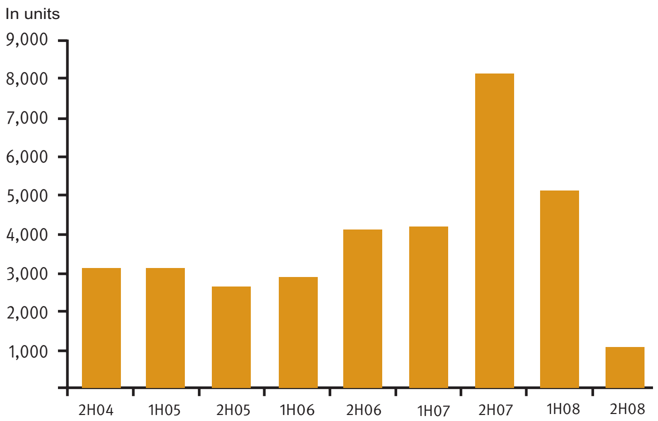
Only 5 condominium projects totaling 1,098 units, namely Hampton Park (Tower C), Regatta (Dubai Tower), Thamrin Residence (Alamanda Tower), Albergo at Bellezza and Kuningan Place were completed and handed over to the buyer in the 2nd half of 2008, which brought the total cumulative supply to 63,250 units as of December 2008. Most of these new projects are located in the prime area of South Jakarta. Based on the distribution of supply, the proportion of the upper middle segment has enlarged by 1.20%, while the lower middle shrank by 1% of total existing stock as compared to the previous period.

Figure 14
Jakarta Condominium Market Supply and Demand
(2H 2004 – 2H 2008)



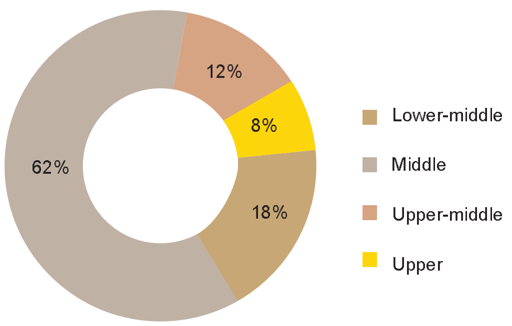
Source: Knight Frank / PT. Willson Properti Advisindo

Figure 15
Additional Supply of Existing Projects
(2H 2004 – 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

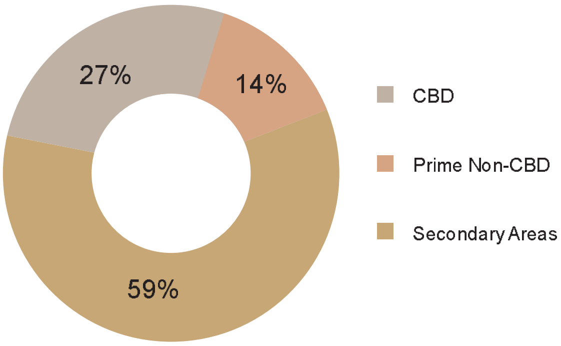
Figure 16
Market Segmentation of Existing Condominium Supply
(2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

SECOND HALF 2008
JAKARTA PROPERTY HIGHLIGHTS

Figure 17
Distribution of Existing Condominium Supply by Location
(2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

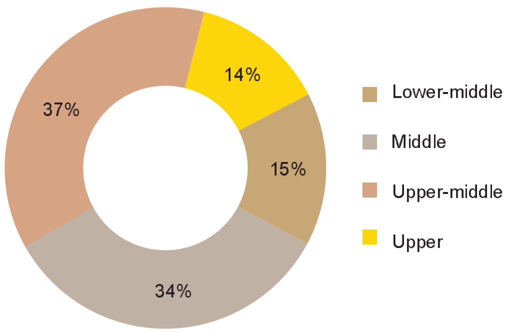
During the period from July to November 2008 approximately 1,863 units (from 8 towers) were launched to the market on a pre sale basis. Of these, 886 units were offered as new launched projects; El Medina, Stupa, Setiabudi Royal Residences, Senopati Suite and Residence 8 (the later 2 projects are located within close proximity in the upper residential area in South of Jakarta), while the remaining units were part of the expansion of Jakarta Residence Extension II, Denpasar Residence (Kintamani Tower) and Ambassade (Tower B).

Table 8
Future Condominium Supply (Year 2009 - 2011)

Year	Project Supply	Average Sales Rate as of December 2008
2009	4,726 units	79.75%
2010	7,171 units	65.18%
2011	8,080 units	51.89%

Source: Knight Frank / PT. Willson Properti Advisindo

Figure 18
Market Segmentation of Future Condominium Supply (Projected Completion 2009 – 2011)
(2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

Although the market started to witness some deceleration of development, we project that approximately 1,100 units from 5 nearly completed projects will add to the existing market in the first half of 2009. Total future supply between 2009 and 2011 is projected at 19,976 units, of which 37% will be dominated by upper-middle segment, followed by middle, upper and lower-middle at 34%, 15% and 14% respectively.

Table 9
Some Projects for Completion Over the Next 6 Months

Project	Location	
Nirvana 1	Prime Non-CBD	Kemang
Thamrin Residence (Tower B, C)	CBD	Thamrin
Boulevard	Secondary Non-CBD	Kebon Sirih
Best Western Mangga Dua	Secondary Non-CBD	Mangga Dua
Grand Kartini	Secondary Non-CBD	Pasar Baru
Permata Hijau Residences	Prime Non-CBD	Permata Hijau

Source: Knight Frank / PT. Willson Properti Advisindo

Weakened Sales Activities

The rate of sales of existing supply was high at 97.7%, while the sales rate for proposed projects, targeted for completion between 2009–2011, was recorded at 62.4%, leaving 7,503 units unsold. However, during the final quarter sales activity dropped significantly, by 20% - 30% for projects in the early stages of marketing/development (proposed projects). This was partly due to high mortgage rates and larger down payments being required from banks as a result of the global financial situation.

Middle segment projects were the most effected by the crisis as the majority of sales were transacted through mortgage/housing loans. Meanwhile, the upper and high-end markets were put on hold, waiting until economic conditions improve while monitoring closely developer commitment to complete their projects.

Table 10
Jakarta Condominium Market Highlights (2H - 2008)

Total Existing Supply	63,250 units
Average Sales Rate of Existing Supply	97.68%
Existing Unsold Units	1,468 units
Future Supply 2009 - 2011	19,976 units
Average Pre-sales Rate of Future Supply	62.44%

Source: Knight Frank / PT. Willson Properti Advisindo

Table 11

Condominium Asking Sales Prices and Service Charges by Location (2H 2008)

Location	Asking Sales / sqm		Service Charge / sqm		Changes From 1H 2008	
	Rupiah	US$	Rupiah	US$	Rupiah	US$
CBD	Rp 14,520,577	$ 1,329	Rp 14,614	$ 1.33	1.06%	-14.84%
Prime Non-CBD	Rp 12,480,260	$ 1,140	Rp 12,828	$ 1.18	1.64%	-14.37%
Secondary Non-CBD	Rp 7,537,151	$ 688	Rp 8,373	$ 0.77	0.66%	-15.19%

US$1 = Rp 10,950

Source: Knight Frank / PT. Willson Properti Advisindo

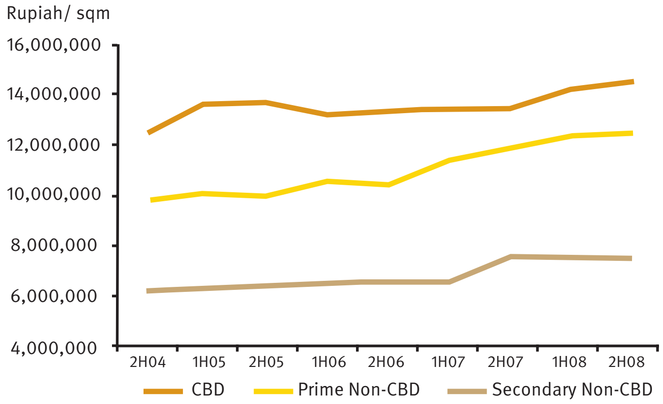
Steady Average Sales Prices

Sales prices were put under great pressured by the hesitant market in the second half of 2008. As most of the condominium units in Jakarta are offered in Rupiah terms, there was no significant sale price adjustment. However, the average sale price in US Dollar terms has dropped by approximately 14.5% as a result of weakened Rupiah against US Dollar.

Average sales prices in Rupiah terms remained steady at Rp 14.52 million per sqm, Rp 12.48 million per sqm and Rp 7.54 million per sqm for CBD, Prime Non-CBD and Secondary Non-CBD areas, respectively.

Figure 19

Average Asking Sales Price in Rupiah Term by Location
(2H 2004 - 2H 2008)

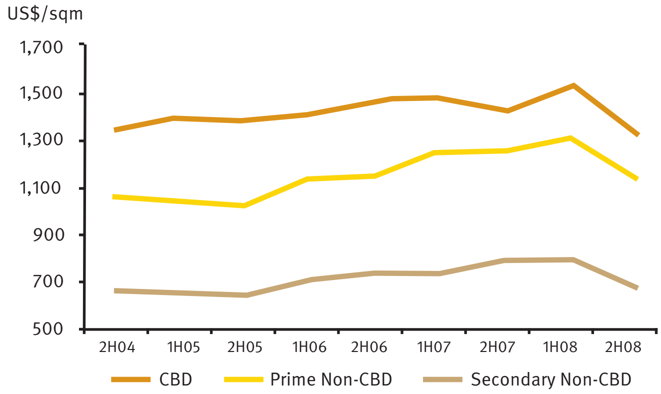


Source: Knight Frank / PT. Willson Properti Advisindo

Nevertheless it should be noted that effective sales prices may decrease as developers are forced to offer an attractive scheme of payment scheme and include a generous discount for cash payment, which has mostly occurred in the primary market. Some projects have offered up to 42 month installment schemes from the normal 30 months as well as a longer down payment installments to attract buyers.

Figure 20

Average Asking Sales Price in US Dollar Term by Location
(2H 2004 - 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

The Low Cost Apartment Market is Susceptible

A government program to provide affordable/low-cost apartments in up to 1,000 towers across the country before 2011 seems far from its target. We recorded a total of approximately 38,000 low-cost apartment units, with a sales rate of above 80% as of December 2008.

Although the pre-sales of low cost apartment projects (*rusunami*) have performed well since their launch in the second half of 2006, sales begun to deteriorate modestly in the fourth quarter of 2008 as an impact of global economic recession. Decreasing demand in this segment was strongly related to the rapid escalation of mortgage rates from 12% per annum in March 2008 to 15% per annum in December 2008, where the majority of sales were transacted through bank loan/mortgage facilities.

We foresee that more low-cost apartment projects will be delayed in 2009 due to liquidity problems faced by developers as some banks are still reluctant to lower their lending rates, despite the Central Bank's reduction of the interest rate to 9.25% in December 2008. In addition, the lengthy procedures to obtain project permits have also caused delays for some projects. The average sales rate is projected to decline in the first half of 2009.

The abolition of the 10% Value Added Tax (PPN) for low-cost apartments was introduced in the first half of 2008, (type 21/36, maximum selling price of Rp 144 million) in order to make them more affordable. The government plans to further boost demand in 2009 for this segment by increasing the subsidy from Rp 250 trillion in 2008 to Rp 800 trillion in 2009 on down-payment scheme and interest rate. In addition the government, as regulator, has decided to hold sales prices at their current level, at least for the next semester.

The Market Will Continue To Slow Down

The impact of global financial meltdown will continue in the first semester of 2009. More projects will be delayed in light of high lending rates and the difficulty in obtaining financial support. We project the deceleration of the development progress in 2009 will be approximately 25% - 30% of its original schedule.

Demand for the lower and middle segments would be highly affected as most rely on mortgages for financing. Overall, demand will remain slow as a result of weakened purchasing power. Developer is pressured to continue offering flexible terms of payment and reconfigurate its unit for more affordable unit price in 2009.

Government Regulation

The tax office, starting from January 2009, will impose a 5% final tax on property sales, alleviating from standard corporate income tax of 30%. In addition, low cost apartments will enjoy further a reduction to 1% to boost demand.

The government also plans to give additional incentives to developers who build low-cost projects by eliminating or reducing the construction VAT to 6% from 10%, in order to accelerate construction activity.

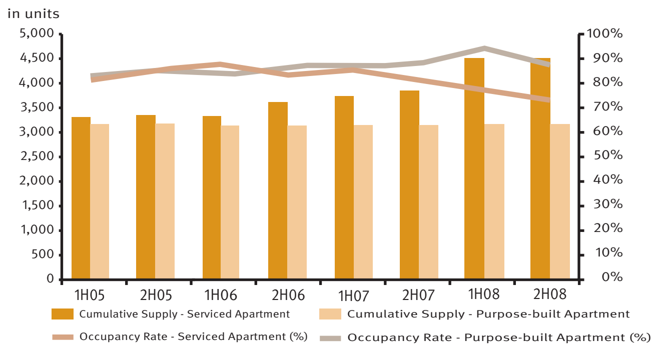
Source: St. Regis Residences

RENTAL APARTMENT MARKET

Sour finale for proprietor

There has been downward pressure on occupancy levels, not only due to seasonal trends, but also softening demand. Given current market conditions, some of new completed projects are still holding back their operational schedule.

Figure 21
Jakarta Rental Apartment Market Supply and Demand
(1H 2005 – 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

Table 12
Jakarta Rental Apartment Market Highlight (2H 2008)

Total Existing Supply	**7,710 units**
- Serviced Apartment	4,541 units
- Non-Serviced, Purpose-built Rental Apartment	3,169 units
Physical Occupancy Rate	**79.80%**
- Serviced Apartment	73.74%
- Non-Serviced, Purpose-built Rental Apartment	88.48%
Overall Vacancy Rate	1,557 units
Future Supply 2009 - 2011	**830 units**

Source: Knight Frank / PT. Willson Properti Advisindo

Table 13
Projection of Future Rental Apartment Supply (2009-2011)

Est. Completion Year	Projected Units
2009	510 units
2010	200 units
2011	120 units

Source: Knight Frank / PT. Willson Properti Advisindo

No New Additional Supply

The total supply of rental apartments was steady at 7,710 units. Of which 59.9% of total stock, or 4,541 units, were categorized as a serviced apartments, while the remaining were non-serviced and purpose-built rental apartments. We have not taken into account new supply completed in second half of 2008, as developers are holding back the launch of these units for more favourable market conditions.

As of December 2008, five rental apartment projects totaling 710 units were still under construction and are expected to enter the market within the next two years. Three out of four future projects were classified as serviced apartments (offered as strata-title ownership, known as 'condotel' projects) and only one project was categorized as purpose-built rental apartments.

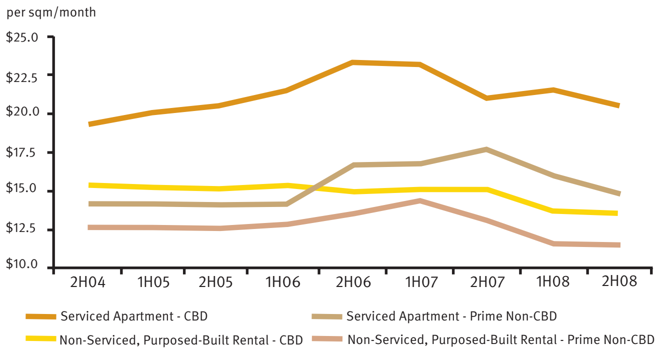
Softening Rental Demand

The occupancy rate has decreased considerably, by 4.43% to 79.8% in the second half of 2008, reflecting softening rental activity even prior to global financial meltdown. Some rental apartments have recorded a number of booking cancellations during the fourth quarter. The highest downturn in occupancy occurred in the non-serviced/purpose-built rental apartment sub-market, which dropped by 5.9% to 88.5% and 3.4% to 73.7% in the serviced apartment sub-market. In addition, softening rental activity was due to the holiday season, when large numbers of expatriate tenants leave the country for vacation or return to their hometown.

Adjusted Rents

Overall asking gross rents fluctuated both in US Dollar and Rupiah terms as a result of weakened leasing activities. The lowest rental decline in US Dollar terms was recorded in serviced apartments in non-CBD areas, which dropped by 7.01% to US$14.93 per sqm/month, while those in CBD areas declined by 4.29% to US$20.65 per sqm/month. In US Dollar terms rents in non-serviced/purpose-built rental apartments dropped by approximately 1% as compared to the previous semester.

Figure 22
Average Asking Rents in US Dollar Term by Sub Market
(2H 2004 - 2H 2008)

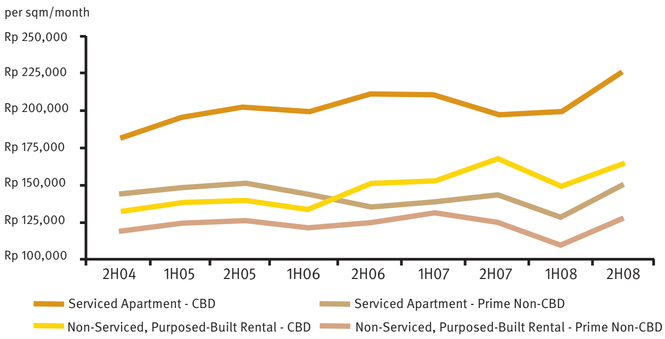


Source: Knight Frank / PT. Willson Properti Advisindo

However, Rupiah depreciation against the US Dollar in the final quarter of 2008 raised average gross asking rents in Rupiah terms by 8.9% - 16.5% as compared to the previous semester. Non-serviced/purpose-built rental apartments located in prime non-CBD areas recorded the highest rental growth in Rupiah terms at 16.5%, followed by properties located in CBD area at 15.84%.

Meanwhile, rental increments in Rupiah terms of serviced apartments were between 8.9% and 12.9% for properties located in CBD and prime-non CBD respectively.

Figure 23
Average Asking Rents in Rupiah Term by Sub Market
(2H 2004 - 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

Market Outlook

We are expecting approximately 500 units of new serviced apartments/condotels to be completed in 2009, though operational commencement may not necessarily follow immediately as developers/operators are likely to hold off until the market becomes more favorable.

Demand will continue to slow as the main target market is still expatriates. With the financial sector severely affected by the global crisis we can expect a large reduction in expatriates from this sector in the upcoming semester. While expatriate numbers from the oil & gas industries are expected to remain steady. The economic and investment climate will continue to play a key role in generating the number of expatriate arrivals and residing in Jakarta.

Table 14
Asking Gross Rental Rates of Jakarta Rental Apartment Market (1H 2008)

Market Segment	Asking Gross Rental/month		Change from 1H 2008	
Serviced Apartments	**Rupiah/sqm**	**US$**	**Rupiah**	**US$**
- CBD	Rp 226,158	$20.65	12.09%	-4.29%
- Prime Non-CBD	Rp 163,518	$14.93	8.09%	-7.01%
Non-Serviced, Purpose-Built Rental Apartments				
- CBD	Rp 149,610	$13.66	15.84%	-1 .08%
- Prime Non-CBD	Rp 127,025	$11.60	16.50%	-0.52%

Source: Knight Frank / PT. Willson Properti Advisindo

HOTEL MARKET

Market striving through global downturn

Despite the global crisis which took effect in the second half of 2008, demand remained stable, backed by the domestic market as well as the Visit Indonesia Year program. ARR and RevPAR were stable during the period.

Supply Stable

No new additional supply was completed during the period observed, which keeps the total room stock at 20,856. The current global economic crisis has delayed a number of projects under construction to a later date. However, we are still projecting that 2,436 rooms will enter the market between 2009 to 2011, of which 43.27% (1,065 rooms) will come on stream in 2011. 679 rooms (27.87%) from 4 hotels will add to the hotel supply in 2009, namely Kempinski (a redevelopment of the former Hotel Indonesia which had been in operation since 1960), Grand Aston Albergo, The Akmani Suite Hotel and the Best Western Mangga Dua, Hotel & Residence. The latter project was previously under the Aston management, but later changed to the Best Western brand. The remaining 28.41% (692 rooms) is expected to enter the market in 2010.

The incoming supply is dominated by 4-star hotels, which account for 45.98% of the total future supply (1,120 rooms), followed by 5-star hotels with 42.69% (1,040 rooms) and 3-star hotels with 11.33% (276 rooms). All of the proposed hotels are located outside the CBD with one exception, Kempinski which is located in the heart of Jakarta CBD at the well known Hotel Indonesia roundabout.

Hotel market distribution remained unchanged, dominated by 5-star hotels with 40.96% share or 8,542 rooms, followed by 4-star hotels with 30.21% (6,300 rooms) and 3-star hotels with 28.84% (6,014 rooms). Based on location, most of the hotels are located in the non-CBD area contributing about 61%, whilst the remainder is located in the CBD area.

Resilient Demand

The total number of passenger arrivals to Soekarno-Hatta International Airport was recorded at 15.2 million by the end of 2008, or decreased by 4.0% (year-on-year). Despite the global crisis, the number of international arrivals increased by 4.6%, amounting to 3.5 million, as compared to the same period in 2007. However, according to the Association of Asia Pacific Airlines, global airline traffic is expected to slow in the next 12 to 18 months.

Figure 24

Passenger Arrivals at Soekarno-Hatta International Airport (2002 - 2008)

Source: PT (Persero) Angkasa Pura II

The fall in total passenger numbers has been driven by domestic arrivals, which have declined by 6.3% as compared to 2007 (totaling of 11.7 million). This is mainly due to the weakened domestic purchasing power as a result of the economic slowdown.

A Fairly Successful Visit Indonesia Year

The Visit Indonesia Year (VIY) 2008 program managed to attract 6.4 million foreign tourists, the highest recorded in the past 10 years and in excess of 90% of original year target of 7 million (growing by 12.9% y-o-y).

Table 15
Future Hotel Supply Completion Schedule (Year 2009 - 2011)

Year	Project Name	Star Rating	No. of Rooms	Location
2009	Best Western Mangga Dua, Hotel & Residence	4*	148	Non-CBD
2009	Grand Aston Albergo di Bellezza	5*	126	Non-CBD
2009	Hotel Indonesia Kempinski at Grand Indonesia	5*	289	CBD
2009	The Akmani Suite Hotel	3*	116	Non-CBD
2010	Aston Soho, Hotel & Residence	4*	260	Non-CBD
2010	Hotel Harris Kelapa Gading	4*	232	Non-CBD
2010	Swiss-BelHotel at Grand Kartini	4*	200	Non-CBD
2011	Aryaduta Regency Hotel	5*	325	Non-CBD
2011	Gandaria City Hotel	5*	300	Non-CBD
2011	Hotel Ibis Patria Park	3*	160	Non-CBD
2011	Hotel Pluit Emporium	4*	280	Non-CBD
Total			**2,436**	

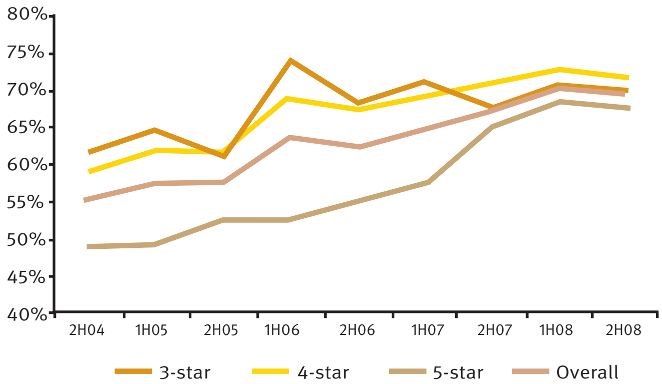
Source: Knight Frank / PT. Willson Properti Advisindo

Total foreign exchange revenue reached US$ 7,582 million at the end of 2008, which surpassed the VIY's target of US$7,000 million. This is partly attributed to rupiah depreciation against the US$, which made traveling expenses to Indonesia relatively cheap compared to other favorite Asian destinations and also the stable political condition. Moreover, the global crisis has seen tourists shift their choice of destinations to closer and cheaper places of interest, such as Indonesia. With this favorable result, the Government decided to prolong the program into 2009 aimed to grab MICE & maritime tourism, adventure and ecotourism. These categories are believed to be less sensitive on security issues given the General and Presidential elections due to take place in mid of 2009.

Unwavering Occupancy

There were a number of room cancellations recorded during the observed period, mainly from countries most acutely affected by the economic turmoil, such as the US and countries in Western Europe. Nevertheless, the decline was compensated for by the strong demand of the domestic market, which accounts for 76.6% of hotel demand together with tourists from neighboring countries such as Australia and other parts of Asia. The overall occupancy rate declined slightly from 69.85% to 69.01%. All of the hotel sub-markets experienced a slight decrease to 69.49%, 71.22%, and 67.07%, for 3-star hotels, 4-star hotels, and 5-star hotels, respectively.

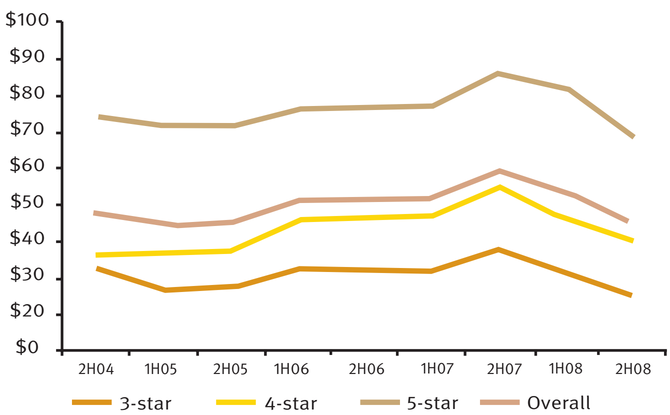
Figure 25
Occupancy Rate by Star Rating
(2H 2004 – 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

Pressure on Room Rates

Figure 26
ARR by Star Rating in US$
(2H 2004 – 2H 2008)



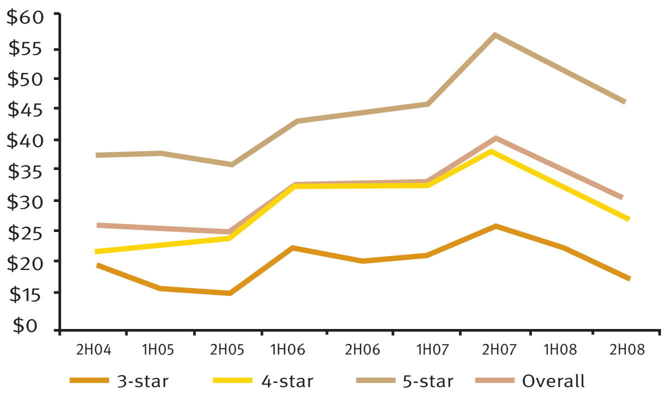
Source: Knight Frank / PT. Willson Properti Advisindo

During the review period, the overall ARR in rupiah terms decreased by 1.04%, with 3-star hotels being the hardest impacted with a decline of 6.70%, followed by 5-star by 0.37%, while the 4-star hotels managed to increase by 1.79%. Meanwhile, in US dollar terms the ARR declined by 16.63%, mainly due to the exchange rate exposure.

Struggle on RevPar

Figure 27

RevPar by Star Rating in US$
(2H 2004 – 2H 2008)



Source: Knight Frank / PT. Willson Properti Advisindo

The overall RevPar in rupiah terms has improved by a marginal 1.07% during the period. RevPAR for 5-star and 4-star hotels managed to increase by 6.48% and 1.25%, respectively, while the RevPar for 3-star hotels decreased by 8.51%, respectively. On the contrary, overall RevPar in US dollar terms declined by 14.32%, as a result of rupiah depreciation.

Market Outlook

Stiff competition is inevitable, with new supply expected to come on stream in 2009, notwithstanding the on going impact of the global financial crisis. Nonetheless, the VIY program extension and the upcoming General and Presidential elections are expected to generate demand for MICE and hotel rooms in 2009. This is also supported by the fact that 93% of guests in Jakarta hotels are driven by business purposes. The overall occupancy rate in the Jakarta hotel market is expected to remain stable, as are the ARR and RevPar.

Table 16

ARR of Jakarta Hotel Market by Star Rating (2H 2008)

Market Segment	Average Room Rate (ARR)		Change from 1H 2008	
	Rupiah	US $	Rupiah	US $
3-Star Hotels	Rp 267,455	$ 24.43	- 6.70 %	- 21.47 %
4-Star Hotels	Rp 426,444	$ 38.94	1.79 %	- 14.25 %
5-Star Hotels	Rp 747,355	$ 68.25	- 0.37 %	- 16.06 %
Overall Hotels	Rp 482,704	$ 44.08	- 1.04 %	- 16.63 %

US$1 = Rp 10,950
Source: Knight Frank / PT. Willson Properti Advisindo

Table 17

RevPar of Jakarta Hotel Market by Star Rating (2H 2008)

Market Segment	Average Room Rate (ARR)		Change from 1H 2008	
	Rupiah	US $	Rupiah	US $
3-Star Hotels	Rp 187,456	$ 17.12	- 8.51 %	- 22.92 %
4-Star Hotels	Rp 303,183	$ 27.69	1.25 %	- 14.70 %
5-Star Hotels	Rp 507,239	$ 46.32	6.48 %	- 10.29 %
Overall Hotels	Rp 334,228	$ 30.52	1.70 %	- 14.32 %

US$1 = Rp 10,950
Source: Knight Frank / PT. Willson Properti Advisindo

Research

Americas

USA

Bermuda

Brazil

Caribbean

Australasia

Australia

New Zealand

Europe

UK

Belgium

Czech Republik

France

Germany

Hungary

Ireland

Italy

Poland

Portugal

Russia

Spain

The Netherlands

Ukraine

Africa

South Africa

Botswana

Kenya

Malawi

Nigeria

Tanzania

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Technical Note
The figures in this report relate to the availability of built, up-and-ready office, shopping centres and apartments within Jakarta market. Vacant premises and leased spaces which are being actively marketed are included.

Knight Frank
Newmark
Global