RESEARCH

FIRST HALF 2010

JAKARTA PROPERTY HIGHLIGHTS

Knight Frank

HIGHLIGHTS

- The Indonesian economy grew by 6.0% during the second quarter of 2010 and is on pace to recover faster from the global economic recession. Manageable inflation, continued strength of the Rupiah and spiking foreign direct investment helped to contribute to the positive GDP growth. In 2011, the Indonesian economy is predicted to grow in the range of 6.0% - 6.5%.

- Positive expectations and renewed confidence in line with improving economic conditions helped to generate more market activities in all property sectors. More new foreign businesses were seen exploring office opportunities to set up operations and existing tenant upgraded to newer office buildings.

- The retail demand from the food, beverage, leisure and entertainment industries continued to expand improving occupancy flow. The condominium sector poised to more revival with net supply climbing almost double the rate in the prior period, fair increase in average sales price in the Rupiah terms and sales rate for new condos ticking up.

- The high-end 5-star rated hotels experienced a stable rebound after the JW Marriott and Ritz Carlton Kuningan bombing attacks last year. Other lower star-rated hotels posted lower occupancy rates. The decline in the occupancy rate was followed by the weakening ARR and RevPar.

ECONOMY IN BRIEF

Promising Economy

Growing by 6.0% during the second quarter of 2010, the Indonesian economy is on pace to recover faster from the global economic recession. Recently implemented monetary measures such as unchanged Central Bank of Indonesia's key benchmark and regulations on managing capital flows may help to position the recovery on a more sustainable path.

Momentum Builds Up

Joining an Asian rebound as the region leads the recovery from last year's global downturn; Indonesia, as the Southeast Asia's largest economy, gained new momentum during the first half of 2010, expanding at the fastest rate in more than a year.

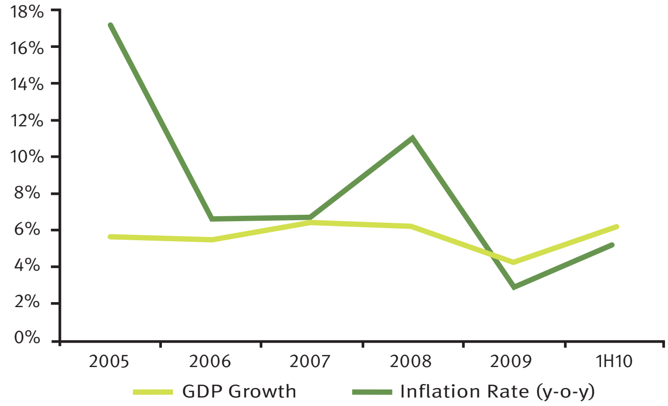
Second quarter growth of 6.0% (yoy), up from 5.7% (yoy) in the previous quarter indicated that the fundamentals supporting Indonesia's economic growth remain positive.

Importantly, the new Finance Minister, Agus Martowardojo, appears to have received positive reactions and increased public confidence in the Finance Ministry by assuring good policy stability and efficiency and improving policy coordination between fiscal and monetary authorities.

Optimism was supported by investment performance, accelerated domestic consumption and increased export activities in keeping with the upturn in the global economy. Efforts to reduce the government's debt burden also helped to renew investors' confidence. Investment growth reached an estimated 10% (yoy) for the second quarter in response to strengthening domestic and external demand.

The more favorable investment climate also received a boost from the upgrading of Indonesia's sovereign credit rating by several agencies. Areas such as the trade, hotels, and restaurants sector and transport and communications will continue to fuel economic performance this year.

Figure 1
GDP Growth vs. Inflation Rate
(2005 - 1H 2010)



Source: Central Bureau of Statistics

Inflation Risk, Yet Still Tractable

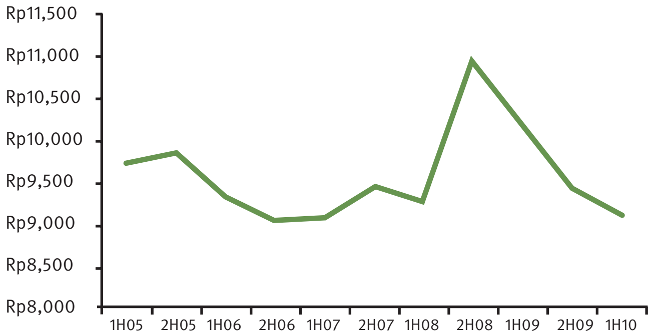
The Central Bank of Indonesia reported that inflationary pressures, particularly prices in the “volatile food” category which includes various spices and rice, have been recorded as rising during the second quarter of 2010 due to supply problems caused by bad weather affecting production. The higher-than-expected inflation rate rose to a 13-month high of 5.05% (yoy). Yet, it is still well below the pre-crisis levels of 11.1% in 2008. Given the inflationary pressures, the Central Bank revised slightly its inflation target for 2010 to 5.0%±1%, compared to 4.5%±1% estimated in the third quarter of 2009.

Despite seemingly benign inflation, there are concerns with obstacles to the economic growth as inflation is expected to gather pace as a result of the increase in the basic electricity tariff (TDL) for medium and large households and industrial consumers by an average of 10% effective from July 2010.

In addition to the electricity price hike, contributing factors from inflationary pressures may come from the upcoming fasting month of "Ramadhan" in August and the "Idul Fitri" festivities in September, which could cause seasonally high consumer demand.

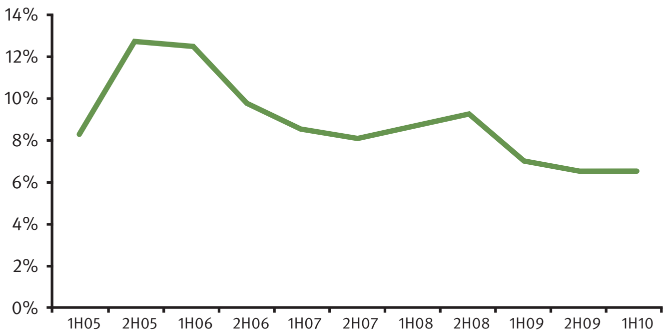
Also of concern is the effectiveness of government efforts to help eradicate problems in the distribution of basic commodities. These three variables will remain closely watched during the second half of this year.

Figure 2
Exchange Rate (Rp / US$1)
(1H 2005 – 1H 2010)



Source: Central Bank of Indonesia

Figure 3
Interest Rate (BI Rate)
(1H 2005 – 1H 2010)



Source: Central Bank of Indonesia

Stable to Appreciating Rupiah

The Rupiah continued to rise this year with surging record foreign capital inflows. Overseas investors increased holdings of Indonesian stocks and bonds. The Rupiah has appreciated 3.0% to Rp9,083 as of June 30, 2010, from Rp9,365 in the end of January 2010. Favorable growth prospects and relatively higher yielding assets will likely continue to encourage foreign inflows from industrialized countries.

Concerns over excessive capital inflows, on June 16, 2010, the Central Bank of Indonesia implemented a policy measure to deter short-term capital inflows in order to maintain financial stability. Many analysts believe that the new measure will likely put a brake on "hot money" inflows and shift capital flows to other financial assets such as government and corporate bonds.

Good economic fundamentals and the Central Bank's efforts to keep Rupiah stable at a reasonable level about Rp9,000 to the U.S. dollar, will help maintain a balance between export and import activities in order to help sustain economic growth.

Incentives to Boost Credit Growth

The Bank of Indonesia (BI) has kept its benchmark interest rate at a record low of 6.5% for the eleventh straight month since August 2009 because of low inflation. The Central Bank viewed the recent spike in inflation as "temporary" and reported that it will likely to hold its key rate until the end of this year. It remains optimistic as the rate is still aligned with the inflation target 2010-2011 of 4 to 6%. Should inflation increase beyond the target level later this year, it may push policy makers to raise the key rate to tame inflation.

Table 1
Economic Indicators (2005 - 1H 2010)

Indicator	2005	2006	2007	2008	2009	1H 2010
GDP[1]	5.60%	5.50%	6.32%	6.20%	4.30%	6.00%
Inflation[2]	17.11%	6.60%	6.59%	11.06%	2.78%	5.05%
BI Rate	12.75%	9.75%	8.00%	9.25%	6.50%	6.50%
Exchange Rate (per US$-end of June)	Rp9,830	Rp9,020	Rp9,419	Rp10,950	Rp9,400	Rp9,083
Foreign Investment Planning Realization						
No. of Projects	909	801	982	1,138	1,110	1,573
Value (US$ Million)	8,915	5,977	10,341	14,871	10,790	7,670
Domestic Investment Planning Realization						
No. of Projects	214	145	159	239	225	530
Value (Rp Billion)	30,665	20,788	34,879	20,363	35,428	21,900

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)

Despite a record low BI rate, commercial banks have been reluctant to lower lending rates to businesses during the past year. Consequently, the Central Bank is now planning to issue a rule that will connect a bank's reserve requirement with its loan-to-deposit fraction in order to pressure banks to cut their lending rates to support the real sector. The regulation is expected to boost lending growth by 22 to 24%.

Spiking Foreign Investment

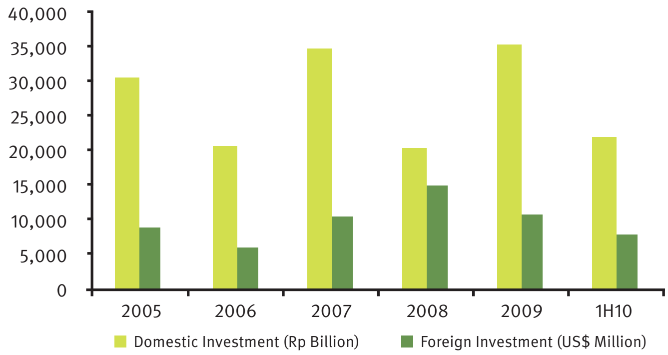
The investment climate has shown improvements with the Coordinating Investment Board (BKPM) stating that the cumulative investment realization for both domestic and foreign investment realization for the first half of 2010 surged to Rp92.9 trillion (yoy) for 2,103 projects (an increase of 55.8% from Rp66.4 trillion). Foreign investment realization reached Rp71.0 trillion ($7.67 billion) for 1,573 projects. Singapore was the leading investor with $1.6 billion for 156 projects. Domestic investment in the second quarter rose by 20.7% to Rp15.2 trillion (qoq).

With Indonesia's conducive economy, renewed international confidence and political stability, the BKPM seeks to achieve its investment target this year of Rp163 trillion ($18.1 billion) or 15% growth in investment.

Recent upgrades to the credit rating of Indonesia's sovereign debts and bonds have helped elevate foreign investors' confidence in Indonesia as its current rating is one or two notches below investment grade.

In an attempt to draw more foreign investment, in June 2010, the government signed a ruling amending the negative investment list (DNI), easing limits on foreign investment in sectors such as construction, health care and electricity generation. However, the telecommunication towers, a well appealing sector projected to grow, remains fully banned to foreigners.

Figure 4
Investment Realization
(2005 – 1H 2010)



Source: Indonesia Investment Coordinating Board

CBD OFFICE MARKET

Positive Expectation Continues

Improving economic conditions helped to support office movements as more new foreign businesses were seen exploring opportunities to set up operations and existing tenant upgraded to newer buildings. With limited supply growth, the office market was able to keep its occupancy afloat, awaiting corporate demand to return gradually.

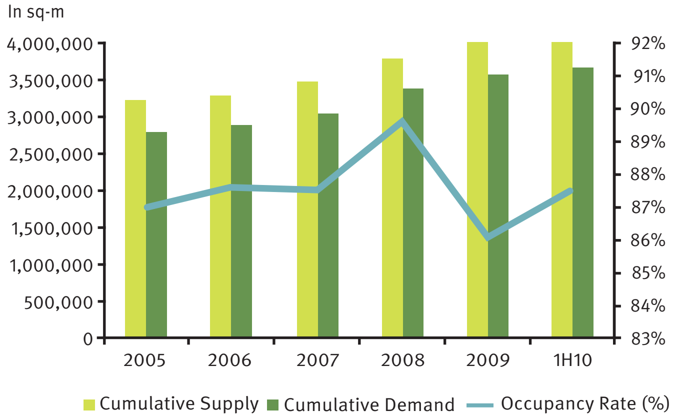
Partial Construction Activity

Only one project, Menara Bidakara 2, was completed in the first half of 2010. Meanwhile, two Grade C office buildings were taken out from the leasing market, due to demolition and a change of landlord's development plan. The total Central Business District office stock increased slightly to 4.18 million sq-m.

As several proposed projects have been put on hold, total amount of supply in the pipeline in 2010-2012 is estimated at 475,652 sq-m. About 30% of the total proposed supply consists of strata-title office projects.

Two projects, namely Sentral Senayan 3 and Equity Tower, are expected to be completed and commence operations in the second half of this year.

Figure 5
Jakarta CBD Office Market Supply and Demand
(2005 - 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Table 2
Jakarta CBD Office Market Highlights (1H 2010)

Office Type	Total Existing Supply	Occupancy Rate	Vacant Space
Rental Office	3,451,143 sq-m	87.75%	422,827 sq-m
Strata Office	572,786 sq-m	83.24%	95,975 sq-m
Owner Occupied Office	155,021 sq-m	97.99%	3,111 sq-m
Total	**4,178,950 sq-m**	**87.51%**	**521,913 sq-m**

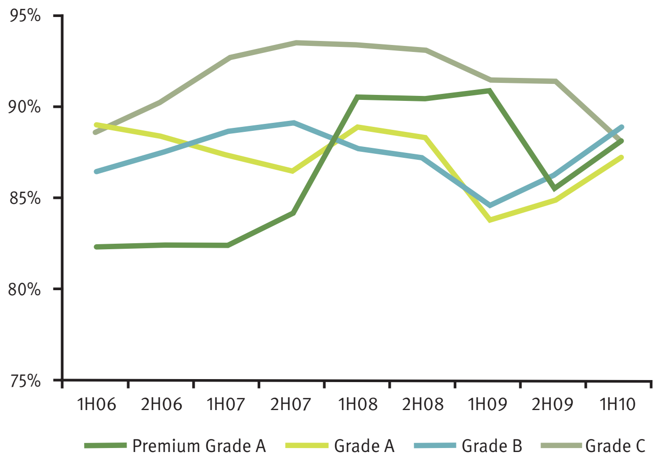
* Part of the strata-title office space have been offered for lease
Source: Knight Frank / PT. Willson Properti Advisindo

Table 3
Future Supply Completion Schedule (2010 - 2013)

Year	Project	Lettable Area (sq-m)	Location	Type
2010	Sentral Senayan 3	51,188	Asia Afrika	Lease
2010	Equity Tower	79,800	SCBD	Strata
2011	Allianz Tower	42,000	Kuningan	Lease
2011	Tempo Tower	45,000	Kuningan	Lease
2011	Kuningan City	60,850	Satrio	Strata
2011	K Link	25,000	Gatot Subroto	Lease
2012	Ciputra World	34,000	Satrio	Lease
2012	WTC 2	60,000	Sudirman	Lease
2013	Chase Tower	77,814	Sudirman	Lease
	Total Proposed Supply	**475,652**		

Source: Knight Frank / PT. Willson Properti Advisindo

Figure 6
Occupancy Levels by Office Grade
(1H 2006 - 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Ongoing Market Recovery

Net take-up in the first half of the year was recorded at 70,713 sq-m, a 15% increase from the same period last year, indicating that market recovery is ongoing, albeit at a gradual pace. All office demand occurred in the Premium Grade A and Grade A submarket. Grade B and Grade C submarket continued to experience negative net take-up, as tenants continued to upgrade their space to newer, higher quality office buildings.

At the end of June, occupancy stood at 87.97% in Premium Grade A, 87.13% in Grade A, 88.21% in Grade B and 88.84% in Grade C submarket. Overall CBD market occupancy was 87.51%. The increase of occupancy in the Grade C submarket was due to the reduction of supply, as two buildings have been taken out of the market.

Office inquiries came from oil/mining, banking, telecommunications, IT and trading sectors, as well as some consulting services and several embassies. The market has been observing an increasing demand in serviced offices as new businesses are exploring opportunities to set up their operations in Indonesia.

Rents and Prices Remain Stable

Base rental remained relatively flat over the first half of the year. The increase of gross rental in the Grade B and Grade C submarkets, both in Rupiah and U.S. dollar terms, was attributable to the increase of service charge, which was inevitable for some older buildings, due to their operational inefficiency.

All submarkets recorded an increase in gross rental in U.S. dollar terms, due to the Rupiah appreciation against the U.S. dollar.

With limited choices available in the market, the total average price of strata-title office buildings remained relatively stable at Rp15.5 million or $1,709 per sq-m.

Table 4

Base Asking Rents and Service Charge by Grade (1H 2010)

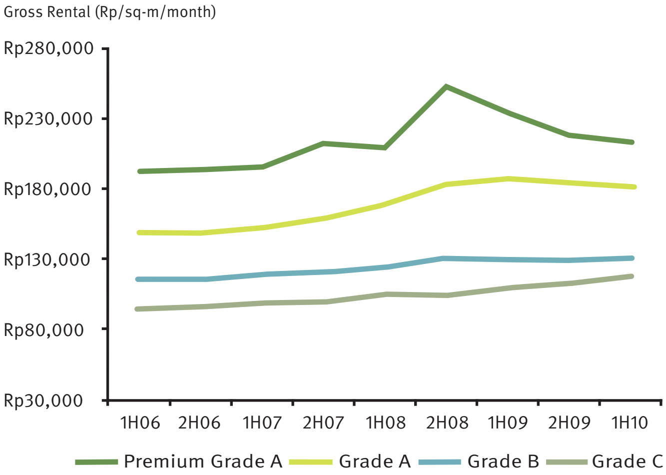
CBD Office Grade	Base Rental / sq-m / month		Service Charge / sq-m / month		Gross Rental / sq-m / month		Price Changes from 2H 2009	
	Rupiah	US$	Rupiah	US$	Rupiah	US$	Rupiah	US$
Overall CBD	Rp119,694	$13.18	Rp56,937	$6.27	Rp176,631	$19.45	-0.2%	3.3%
Premium Grade A	Rp153,199	$16.87	Rp59,965	$6.60	Rp213,165	$23.47	-2.5%	0.9%
Grade A	Rp123,211	$13.56	Rp57,865	$6.37	Rp181,075	$19.94	-0.3%	3.1%
Grade B	Rp78,932	$8.69	Rp51,955	$5.72	Rp130,887	$14.41	1.7%	5.2%
Grade C	Rp71,716	$7.90	Rp46,044	$5.07	Rp117,760	$12.96	5.3%	8.9%

US$1 = Rp9,083
Source: Knight Frank / PT. Willson Properti Advisindo

Figure 7

Gross Asking Rental Rates in Rupiah by Office Grade

(1H 2006 - 1H 2010)

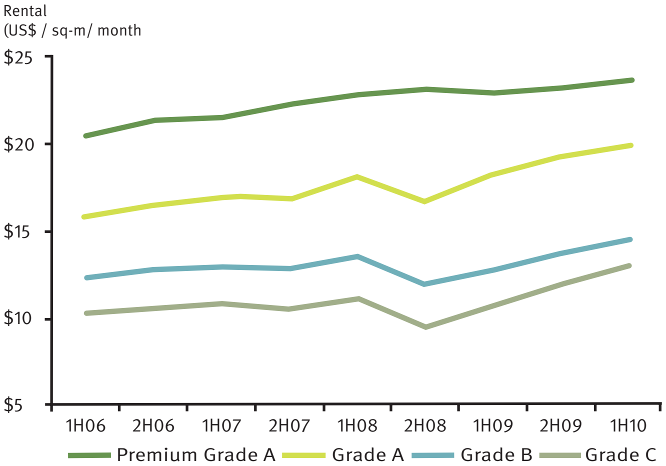


Source: Knight Frank / PT. Willson Properti Advisindo

Figure 8

Gross Asking Rental Rates in U.S. Dollar by Office Grade

(1H 2006 - 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Figure 9

Average Asking Strata-Title Price

(1H 2006 - 1H 2010)

Source: Knight Frank / PT. Willson Properti Advisindo

Outlook

Net take-up will continue to improve. While the larger portion of demand continues to come from tenant relocation, office demand from new business formation is expected to increase, following improving business confidence.

As many tenants continue to move to newer and better quality buildings, and in view of the anticipated increase of electricity tariff, landlords of older buildings will need to review their operational efficiency and refurbish their premises, in order to remain competitive in the market.

RETAIL MARKET

Occupancy Flow Improves, Though Pressures Continue

Modern retailers continued to seek sites in close proximity to existing retail centers, creating strong competition to capture a share of the growing Jakarta retail market. More concessions offered by mall owners in the forms of free rent, generous tenant improvements and shorter leasing term, have attracted retailers to expand their presence and consider opening new branch outlets. With a deep understanding and a focused strategy on segmented consumer preferences, both mall owners and retailers will have better opportunities to maximize profits and win over competitions.

Table 5
Jakarta Retail Market Highlights (1H - 2010)

Retail Type	Occupancy Rate	Vacant Space	Total Existing Supply
Rental Space	87.70%	256,617 sq-m	2,086,776 sq-m
Strata-title Space	75.88%	381,681 sq-m	1,582,333 sq-m
Total	**82.60%**	**638,298 sq-m**	**3,669,109 sq-m**

Source: Knight Frank / PT. Willson Properti Advisindo

Modest Supply Completion Occurs in Central and South Areas

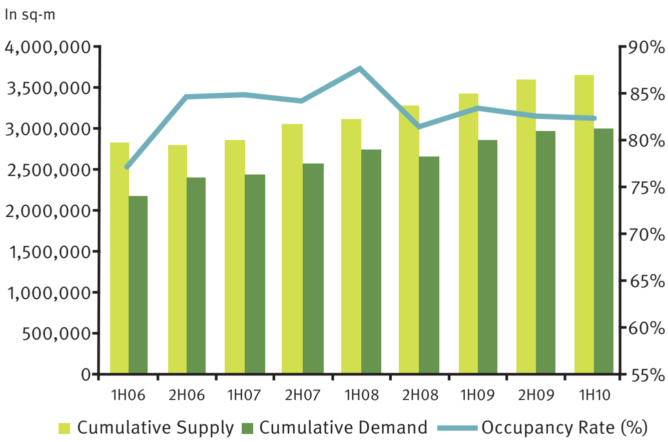
Three new retail centers came on stream during the first half of 2010 totaling about 54,966 sq-m, 33% less than in the second half of 2009. The new deliveries came from two leased retail centers (Epicentrumwalk and Thamrin Nine) and one strata title retail center Thamrin City. The total supply of retail shopping malls in Jakarta increased by approximately 1.5% to 3.67 million sq-m.

The largest supply share for rental retail centers remained in the South of Jakarta with 39.50% of total supply. The Central Business District remained the most concentrated area of Premium Grade A and Grade A buildings for about 54.7% of the total.

Approximately 490,032 sq-m in eleven retail centers is currently in the pipeline scheduled for completion between 2010 to 2012. The pipeline will consist mainly of rental shopping malls (92.0%) and the remaining strata-title retail centers (8.0%) with the majority will take place in Non-CBD area (73.0%).

The proposed development of a 50,000 sq-m shopping center on the site of the former Taman Ria Senayan theme park in Central of Jakarta remains under review pending regulatory approval for an environmental impact assessment (Amdal) and a building permit.

Figure 10
Jakarta Retail Market - Supply, Demand and Occupancy
(1H 2006 - 1H 2010)



Source: Knight Frank / PT Willson Properti Advisindo

Table 6
Projection of Future Supply Completion Schedule (2010 - 2012)

Year	Project Name	Retail Type	Location	Total Supply
2010	Grand Paragon	Lease	Non-CBD	30,000 sq-m
2010	Kemang Village	Lease	Non-CBD	55,000 sq-m
2010	Gandaria Main Street (Gandaria City)	Lease	Non-CBD	101,000 sq-m
2010	MT Haryono Square	Strata	Non-CBD	8,000 sq-m
2010	Pasar Tanah Abang Blok B	Strata	Non-CBD	25,000 sq-m
2011	Citylofts Gajah Mada (Previously Galeria Glodok)	Lease	Non-CBD	13,000 sq-m
2011	Kuningan City	Lease	CBD	50,000 sq-m
2012	Kota Kasablanka	Lease	Non-CBD	82,000 sq-m
2012	Ciputra World in Satrio	Lease	CBD	80,000 sq-m
2012	Pasar Baru Mansion City Walk	Lease	Non-CBD	5,000 sq-m
2012	Ancol Beach City	Lease	Non-CBD	40,000 sq-m
2012	Gapura Prima Plaza	Strata	Non-CBD	6,000 sq-m
	Total			**495,032 sq-m**

Source: Knight Frank / PT. Willson Properti Advisindo

Demand Gradually Increases

With strong consumer confidence and household consumption, the middle to high class market segments became more active, attracting foreign operators of both hypermarkets and department stores.

The overall occupancy remained stable, dropping only insignificantly by 0.10% to 82.75% based on physical occupancy. By submarket, minor escalation in occupancy rate was recorded at 0.38% and 0.28% in both leased and strata title retail centers respectively.

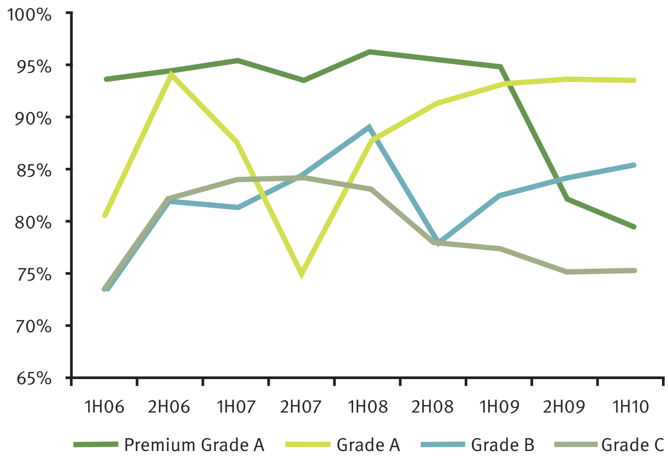
The majority of take up was contributed by major retailers in newly completed and premium retail centers such as Farmers Market and Century XXI in Epicentrumwalk; Blitzmegaplex in Central Park Mall; Ace Home Center, Farmers Market, Toys Kingdom and the Best Denki expansion in Grand Indonesia Shopping Town.

Big box retailers in the hypermarket and entertainment sectors such as Carrefour, Hypermart, Blitzmegaplex and Cineplex XXI continued to expand aggressively, gaining market shares in new shopping malls.

Steady Asking Rental Rates

The overall asking gross rate in Rupiah terms posted a minor increase of 1.98% and the Premium Grade A asking gross rate in Rupiah terms posted a modest 3.95% increase. Service charges only posted a minor increase of 1.39% compared to the second half of 2009. The recently announced increase in basic utility tariffs will likely impact rental rates not until the second half of 2010.

Figure 11
Occupancy Rates by Submarket and Grade
(1H 2006 - 1H 2010)



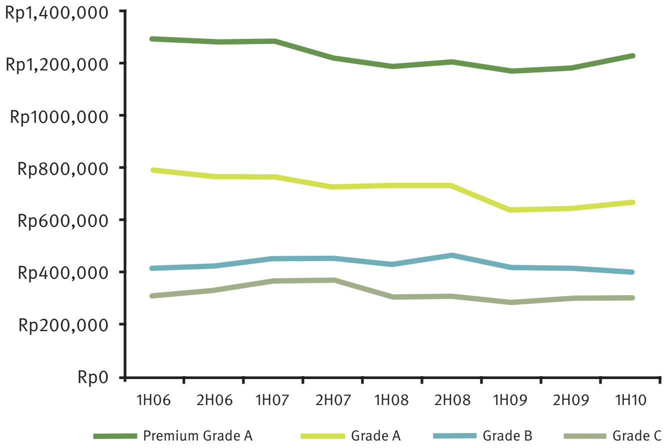
Source: Knight Frank / PT. Willson Properti Advisindo

Table 7
Asking Gross Rental Rates of Jakarta Retail Market (1H 2010)

Shopping Center Grade	Base Rental / sq-m / month		Service Charge / sq-m / month		Gross Rental / sq-m / month		Price Changes from 2H 2009	
	Rupiah	US$	Rupiah	US$	Rupiah	US$	Rupiah	US$
Overall	Rp555,048	$61.11	Rp77,491	$8.53	Rp632,539	$69.64	1.98%	5.54%
Premium Grade A	Rp1,112,974	$122.53	Rp115,939	$12.76	Rp1,228,913	$135.30	3.95%	7.58%
Grade A	Rp586,999	$64.63	Rp79,471	$8.75	Rp666,471	$73.38	3.89%	7.51%
Grade B	Rp337,312	$37.14	Rp63,681	$7.01	Rp400,993	$44.15	-2.99%	0.39%
Grade C	Rp250,985	$27.63	Rp54,412	$5.99	Rp305,397	$33.62	1.52%	5.07%

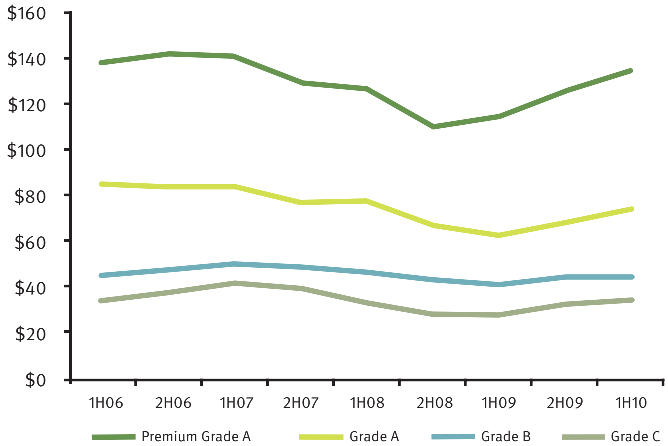
US$1 = Rp9,083
Source: Knight Frank / PT. Willson Properti Advisindo

Figure 12
Asking Gross Rental Rates in Rupiah by Grade
(1H 2006 - 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Figure 13
Asking Gross Rental Rates in U.S. Dollar by Grade
(1H 2006 - 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Looking Ahead

As the local economy gains momentum, demand for retail space should increase modestly, however given the large supply coming on stream the occupancy level is projected to decline in the second half of 2010. Asking rental rates and service charges are forecast to rise mainly due to the expected increase in utility charges. Effective rents are expected to decline modestly due to the increase in both rent abatement and tenant improvement packages.

The annual peak retail seasons such as the upcoming Idul Fitri, Christmas and New Year's holidays during the second half of 2010 will help increase retail sales as these periods generally stimulate higher sales of food and clothing.

CONDOMINIUM MARKET

Renewed Confidence Resumes, Fundamentals Inch Up

Appealing inducements offered by developers, lower mortgage rates and rising consumer confidence towards Indonesian economic stability helped the Jakarta condominium market to gradually sustain its vibrancy. With net supply climbing almost double the rate in the prior period, fair increase in average sales price in the Rupiah terms and sales rate for new condo sales ticking up slightly, the market poised to more revival.

Ample New Completions and Project Openings

With a total of eight completed condominium projects consisting of 2,912 new units, the cumulative strata-title condominium inventory increased by 4.28% to 70,984 units within the first half period of 2010.

The middle sector made the largest contribution to the new supply, accounting for 39.7% of new units delivered. This maintained the share of middle segment condominium at 61.0% of total stock. Considered as a preferred residential location, the South of Jakarta continued to record an increasing trend where the majority of newly condominium completions took place.

Table 8

Projects Completed During the First Half of 2010

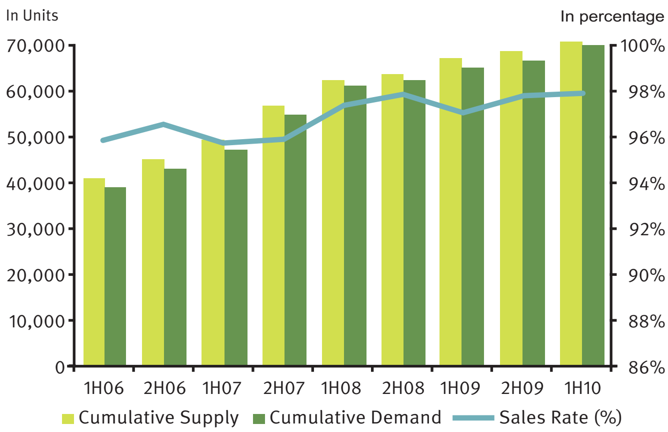
Project	Estimated Total Units	Location
Kebagusan City (Tower A)	570	TB. Simatupang
Maple Park (Tower B)	520	Kemayoran
Gardenia Boulevard	520	Pasar Minggu
Tamansari Sudirman (Tower A)	450	Setiabudi
The Mansion at Kemang	360	Kemang
Gandaria Heights (Tower A)	320	Kebayoran Baru
The Lavande (Tower B)	116	Tebet
Nirvana Kemang	56	Kemang

Source: Knight Frank / PT. Willson Properti Advisindo

Figure 14

Jakarta Condominium Market Supply and Demand

(1H 2006 – 1H 2010)

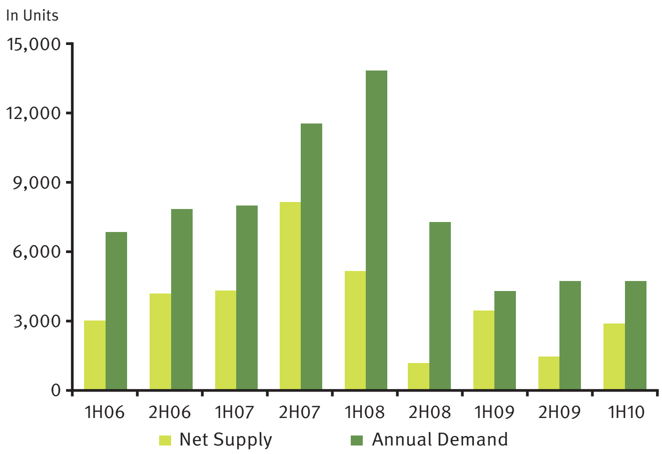


Source: Knight Frank / PT. Willson Properti Advisindo

Figure 15

Additional Net Supply and Demand (From Existing Projects)

(1H 2006 – 1H 2010)



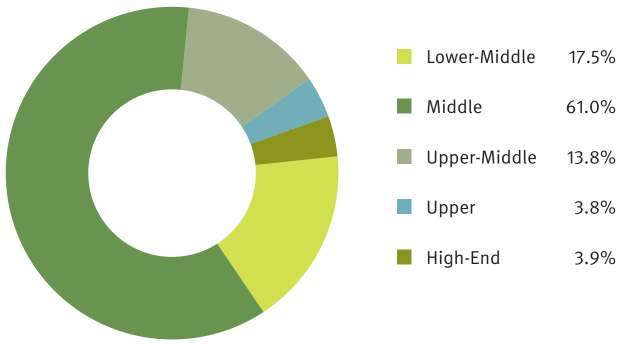
Source: Knight Frank / PT. Willson Properti Advisindo

FIRST HALF 2010
JAKARTA PROPERTY HIGHLIGHTS

Figure 16

Market Segmentation of Existing Condominium Supply

(1H 2010)

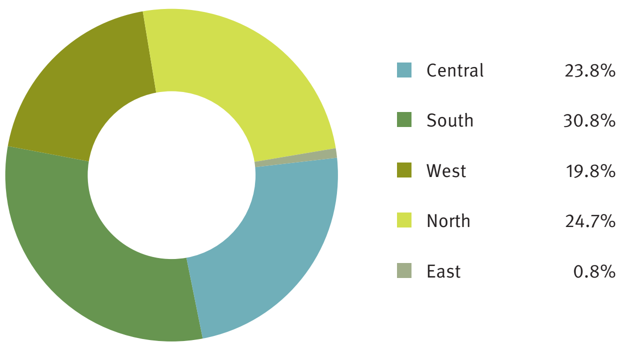


Source: Knight Frank / PT. Willson Properti Advisindo

Figure 17

Distribution of Existing Condominium Supply by Location

(1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Table 9

Newly Launched Projects Offered in Pre-Sales Market

(1H - 2010)

Project	Location	Remark
Cervino Village	Tebet	New Project
Mutiara Menteng Mansion (Tower Mutiara)	Cikini	New Project
Seasons City (Tower C)	Jelambar	New Project
Verde Apartment	Kuningan	Conversion

Source: Knight Frank / PT. Willson Properti Advisindo

Table 10

Projection of Future Condominium Supply (2010 - 2012)

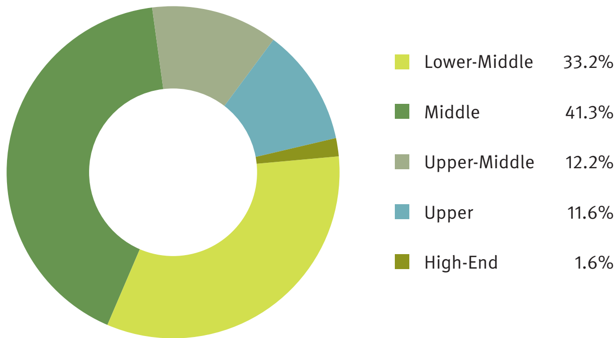
Year	Projected Completion Supply	Average Sales Rate as of June 2010
2H 2010	3,905 units	99.9%
2011	11,376 units	62.7%
2012	11,417 units	62.8%

Source: Knight Frank / PT. Willson Properti Advisindo

Figure 18

Market Segmentation of Future Condominium Supply Projected Completion (2H 2010 – 2012)

(1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Sixty one percent of the existing condominium projects were concentrated in aiming at the middle segment of the market. Further, the middle-low segment projects accounted the market with a 17.5% portion.

Since the start of the year, the Jakarta condominium market has seen growing confidence from developers as they have launched several new projects, taking advantage of the growing property market. The market recorded four projects, a total of 1,721 units, that have been launched into pre-sales markets during the first half of 2010 include Verde Apartment (targeted at the upper segment); Cervino Village Casablanca and Seasons City – Tower C (targeted at the middle segment); Mutiara Menteng Mansion (targeted at the middle-low segment).

It is projected that the total available strata-title condominium supply (Planned and under construction) in the pipeline of approximately 26,698 units will enter the market between 2010-2012. Approximately 60% of the under construction projects scheduled for completion in the second half of 2010 is aiming for the middle segment.

Good Take-Up Level, Sales Rate Stays Steady

The cumulative sales rate of existing supply increased negligibly to 97.86% in the first half 2010 from a previous of 97.69%, though only 0.17%. The slight increase was mainly triggered by high demand of newly completed projects.

Newly launched of lower middle projects recorded a sales rate around 27.7% at the end of the period. The pre-sales rate was recorded at 37.6%, a slight rise of 4.6% from the last period's figure. The stable increase in both sales rate and pre-sales rate seen in the first half of 2010 indicated the Jakarta condominium market's continued recovery.

Average Sales Prices Up Slightly

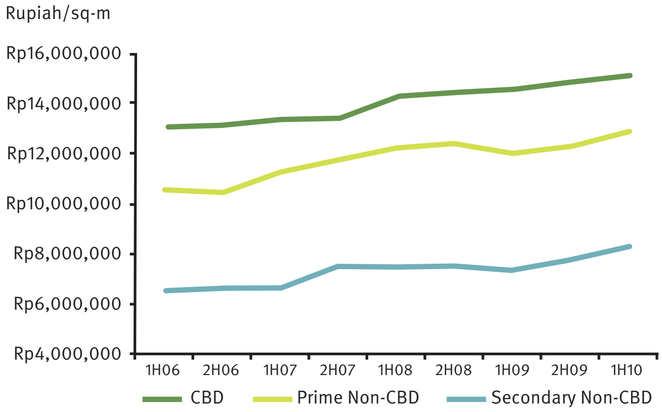
The average sales price by area in Rupiah terms grew slightly of 1.4%, 4.9%, and 7.0% for CBD, Prime Non-CBD and Secondary Non-CBD areas, respectively. Further, the average sales price in the U.S. dollar terms has gone up by 7.5%, mostly contributed by the strengthening Rupiah against the U.S. dollar. The most growth in sales prices was registered in condominiums situated in the secondary Non-CBD areas, increasing by 10.8% to $913 per sq-m.

Table 11
Jakarta Condominium Market Highlights
(1H - 2010)

Total existing supply	70,984
Sales rate existing supply	97.86%
Existing unsold units	1,521
Proposed supply 2H 2010 - 2012	26,698
Pre-sales of proposed supply	75.16%

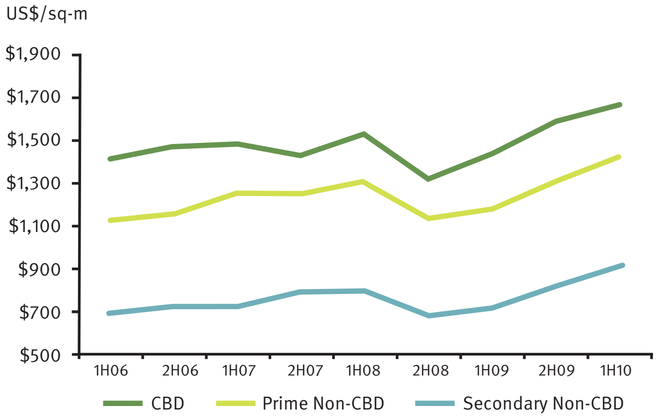
Source: Knight Frank / PT. Willson Properti Advisindo

Figure 19
Average Asking Sales Prices in Rupiah by Location
(1H 2006 - 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Figure 20
Average Asking Sales Prices in U.S. Dollar by Location
(1H 2006 - 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Table 12
Jakarta Condominium Asking Sales Prices and Service Charge by Location (1H 2010)

Location	Asking Sales Prices / sq-m		Service Charge / sq-m		Price Changes From 2H 2009	
	Rupiah	US$	Rupiah	US$	Rupiah	US$
CBD	Rp15,148,284	$1,668	Rp15,053	$1.66	1.4%	4.95%
Prime Non-CBD	Rp12,921,451	$1,423	Rp14,567	$1.60	4.9%	8.58%
Secondary Non-CBD	Rp8,290,390	$913	Rp9,571	$1.05	7.0%	10.78%

US$1 = Rp9,083
Source: Knight Frank / PT. Willson Properti Advisindo

Outlook

The prospective will remain favorable as long as underlying local market conditions and business confidence continue strong. There are still definitely more rooms for the market to grow.

As more developers on a race to supply profitable projects and resume delayed projects due to improving demand, it is estimated that there are plenty of proposed and under constructed new projects in the pipeline of approximately 31,554 new units until 2013.

The bulk of the future supply will still be led by the mid-market segment projects where the potential demand of growing affluent middle-class residents is.

The proposed revision of government regulation on foreign property ownership is still currently under review by the government authorities. The decision making process awaiting authorities' approval will remain closely monitored.

RENTAL APARTMENT MARKET

Steady Performance, Challenges Remain

The market for serviced apartments and purpose-built rental apartments remained stable with a modest increase in the overall occupancy rate. Leasing inquiries from expatriates were seen to surface during the first half of 2010. However, tighter competition and lagging demand will place asking rents temporarily under pressure to maintain occupancy levels.

Limited Construction Activity

Due to the aftermath of global crisis in 2009, only one new addition of Park Avenue Villas (21 units), a prime non-CBD purpose-built rental apartment category, was completed and began operating during the first half of 2010. No longer offering leasing and being shuffled back into the strata-title segment, Verde Apartment, formerly known as Menara Budi Apartment (137 units) is currently under renovation with an eco-green concept of midtown tropical resort. As a result, the total cumulative supply for both serviced and purpose-built rental apartments decreased by 1.3% at the end of June 2010 after the offset, recording a total of 7,979 units. A total of four projects (602 units) are projected to hit the rental apartment market during 2011 and 2012.

Table 13
Jakarta Rental Apartment Market Highlights (1H 2010)

Total Existing Supply	**8,087 units**
Serviced Apartments	4,794 units
Non-Serviced, Purpose-built Rental Apartments	3,185 units
Physical Occupancy Rate	**79.09%**
Serviced Apartments	77.00%
Non-Serviced, Purpose-built Rental Apartments	82.24%
Overall Vacant Units	1,668 units
Future Supply 2010 - 2012	**602 units**

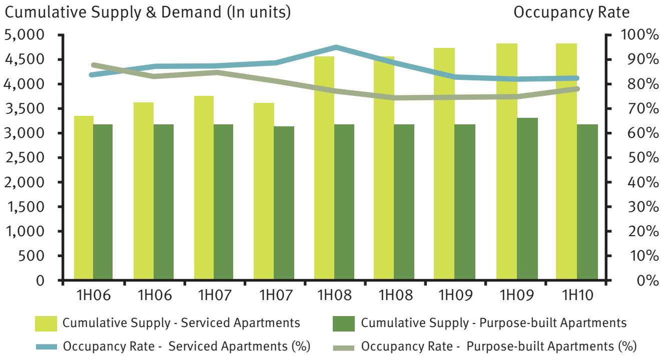
Source: Knight Frank / PT. Willson Properti Advisindo

Table 14
Projection of Future Rental Apartment Supply (2010-2012)

Estimated Completion Year	Projected Units
2H 2010	None
2011	439 units
2012	163 units

Source: Knight Frank / PT. Willson Properti Advisindo

Figure 21
Jakarta Rental Apartment Market Supply and Demand
(1H 2006 – 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

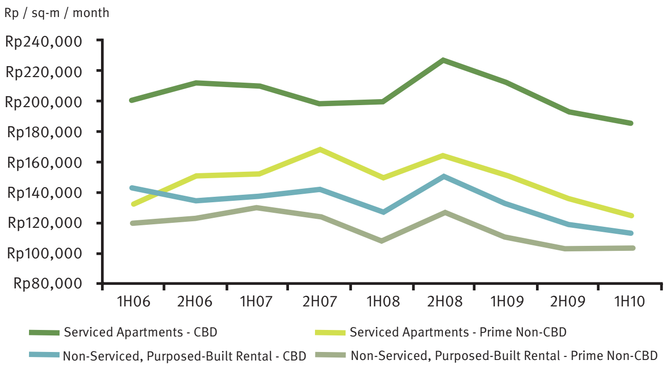
Lower Absorption, Yet Inquiries Emerge

The entire rental apartments closed the second half of 2010 with an increase in occupancy of 1.69%, bringing up the occupancy rate to 79.09%.

The serviced apartments experienced the largest increase in net take-up of 234 units. The rental apartment market still experienced sturdy occupancy gains, but it was at a slower pace.

Reportedly as a positive sign, the market started to see emerging leasing inquiries during the first half indicating many foreign or multinational firms begin to look for rental accommodation for their expatriates for this year as global economy started to recover.

Figure 22
Average Asking Rents in Rupiah by Submarket
(1H 2006 - 1H 2010)



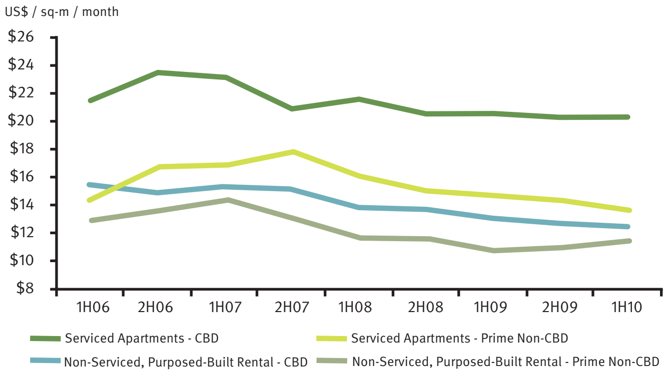
Source: Knight Frank / PT. Willson Properti Advisindo

Asking Rents Remain Tepid

Almost entire submarkets experienced a decline in asking rents, both in Rupiah and U.S. dollar terms, except in non-serviced/purpose-built rental apartments in prime non-CBD areas, which have increased slightly by 3.16% to $11.40 per sq-m per month. This is mainly due to the higher rental by the newly completed purpose-built rental apartment of Park Avenue Villas, which averages about $16.46 per sq-m per month.

Due to the Rupiah strengthening against the U.S. dollar by 3.4% to Rp9,083 per U.S. dollar during the first half of 2010, the average gross rents in Rupiah terms dropped by 4.4% to Rp113,444 per sq-m per month for non-serviced/purpose built rental apartments located in the CBD area.

Figure 23
Average Asking Rents in U.S. Dollar by Submarket
(1H 2006 - 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Looking Ahead

Early bookings and inquiries from Multi National Companies will be expected to continue progressively in line with the improving national economy and rising flows of foreign direct investment.

The increase in the basic electricity tariff in July 2010 will likely pressure rental apartment owners to increase the cost of leasing in gross terms despite their efforts to keep asking rents low and modest concessions to maintain occupancy levels.

Table 15
Asking Gross Rental Rates of Jakarta Rental Apartment Market (1H 2010)

Market Segment	Asking Sales Prices / sq-m		Price Changes from 2H 2009	
Serviced Apartments	**Rupiah/sq-m**	**US$**	**Rupiah**	**US$**
CBD	Rp184,645	$20.33	-3.68%	-0.21%
Prime Non-CBD	Rp124,019	$13.65	-8.03%	-4.82%
Non-Serviced, Purpose-Built Rental Apartments				
CBD	Rp113,444	$12.49	-4.40%	-1.06%
Prime Non-CBD	Rp103,546	$11.40	-0.32%	3.16%

US$1 = Rp9,083
Source: Knight Frank / PT. Willson Properti Advisindo

HOTEL MARKET

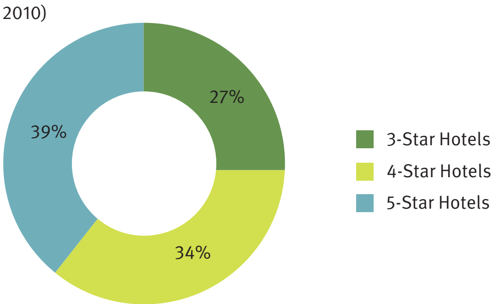
Slower Performance, Moderate Demand

Over the first half of 2010, the Jakarta hotel market experienced decreases in all stars hotel performances resulted mainly from the declining trend in the number of foreign tourists coming to Jakarta. However, the market saw a positive sign of improved recovery on the 5-star hotels' occupancy rate since the last period.

Limited Supply

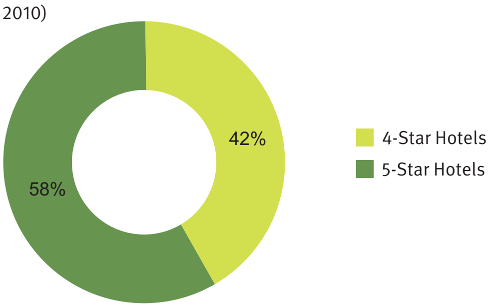
After a significant number of new hotels launched in the last period, the market received only two new 4-star hotels (Harris Hotel Kelapa Gading and Merlynn Park Hotel) totaling 533 rooms during the first half of 2010. On the other hand, the market also witnessed the closing and sale of Cikini Sofyan, a 3-star hotel consisting of 111 rooms, to a local company. The sold hotel will be a part of the under constructed site of the Mutiara Menteng Mansion Apartment.

Figure 24
Distribution of Hotel Rooms by Star Rating
(1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Figure 25
Distribution of New Supply by Star Rating
(1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Table 16
Jakarta Hotel Market Highlights (1H 2010)

Distribution by Star Rating	# of Room	Occupancy Rate
3-Star Hotels	6,623	67.61%
4-Star Hotels	8,298	65.29%
5-Star Hotels	9,639	52.67%
Total Average	24,560	60.96%

Source: Knight Frank / PT. Willson Properti Advisindo

During the end of review period, the total supply increased to 24,560 rooms from the previous 24,138 rooms, after the offset of the Cikini Sofyan closure and the two additional 4-star hotels. The 5-star rooms accounted for the largest portion of 39.25%, followed by 4 and 3-star hotels for 33.79% and 26.97% respectively.

Approximately 1,073 rooms are scheduled to be completed between 2010 and 2012 which will represent an addition of 4% of the total supply in the first half of 2010. Both 4-star and 5-star hotels will still be the dominant segments for the future supply.

Improved Five-Star Demand

The foreign visitor arrivals through Soekarno-Hatta International Airport witnessed a significant growth of 183,449 foreign visitors in March 2010 and slowed down to 155,951 foreign visitors in June 2010. The aftermath of the JW Marriott and Ritz Carlton Kuningan bombing attacks last year, the 5-star hotels finally posted a stable rebound in occupancy, rising by 0.65% to 52.67%.

Table 17

Projection of Future Supply Completion Schedule (2010-2012)

Estimated Completion	Project Name	Star Rating	# of Room	Development Progress
2010	Best Western Mangga Dua	4	168	Finishing
2010	Hotel Pluit Emporium	4	280	Under Construction
2012	Aryaduta Regency Hotel	5	325	Under Construction
2012	Gandaria Main Street	5	300	Under Construction

Source: Knight Frank / PT. Willson Properti Advisindo

As a result, the room night demand (RND) of the 5-star hotels rose by 13.6%. The occupancy of the 3-star and 4-star hotels has decreased by 7.23% and 6.98% respectively. The shifting demand from 3-star hotels to lower rated budget hotel chains offering competitive prices and good service quality by price-sensitive business travelers helped to some extent a reflection of the declines.

The other reason would be due to a challenging environment by newly opened star-rated hotels offering aggressive discounts and putting pressures on older star-rated hotel occupancies.

Figure 26

Occupancy Rate by Star Rating

(1H 2006 – 1H 2010)

Source: Knight Frank / PT. Willson Properti Advisindo

Revenues Still Under Pressure

The decline in the overall occupancy rate was followed by the weakening ARR and RevPar. The average room rate in Rupiah terms dropped in all star-rated hotels. The 5-star hotel ARR decreased slightly by 2.91% to Rp717,738 compared to the prior period. The ARR for 3-star and 4-star hotels were also down by 2.65% and 6.42% respectively. Meanwhile, the ARR in U.S. dollar terms for 3-star, 4-star and 5-star hotels has decreased moderately by 5.12%, 7.32% and 14.83% respectively.

With the room night demand posted a reduction, the total average RevPar across all star-rated hotels experienced a decline in U.S. dollar terms by 5.10% to $33.20 and in Rupiah terms by 8.30% to Rp301,587.

Anticipating the increase in the electricity tariffs, hoteliers will likely be forced to increase room rates in order to compensate the extra cost and maintaining their revenues.

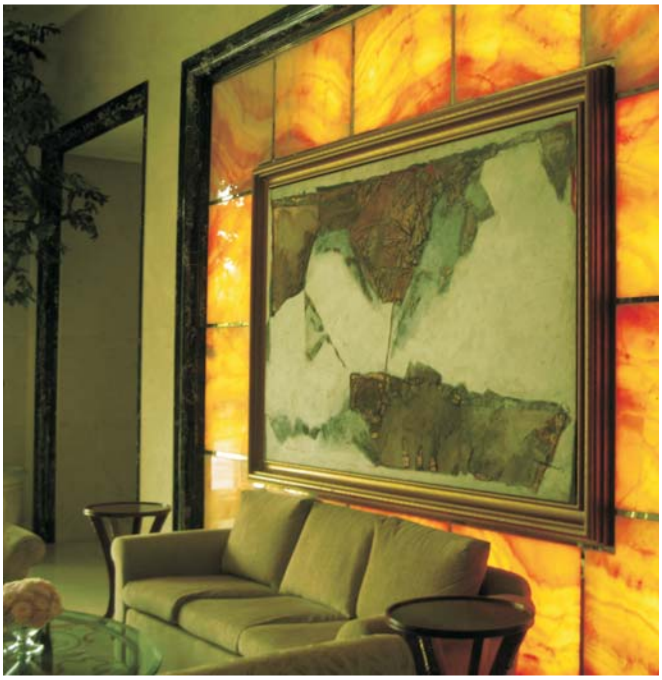
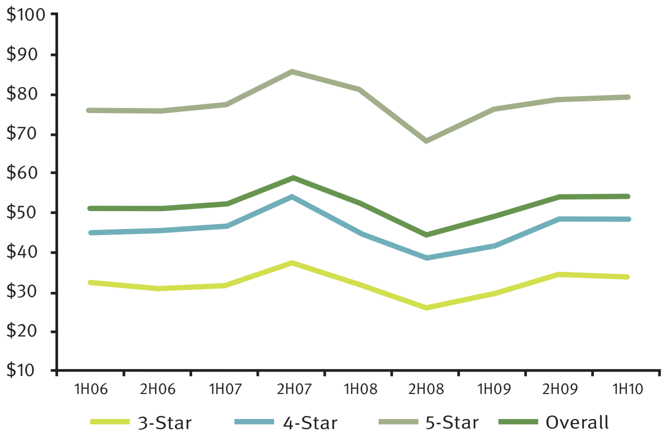


Figure 27

ARR by Star Rating in U.S. Dollar

(1H 2006 – 1H 2010)



Source: Knight Frank / PT. Willson Properti Advisindo

Figure 28

RevPar by Star Rating in U.S. Dollar

(1H 2006 – 1H 2010)

Source: Knight Frank / PT. Willson Properti Advisindo

Outlook

With continued economic improvements, both international and domestic travelers are expected to increase. Dominated by business hotels and an unnaturally tourist spot, Jakarta hotel market will depend largely on non-guests to boost revenues through the promotion of MICE and other revenue generating activities such as anniversaries, banquets and etc.

During off-peak seasons, hoteliers will have to be more proactive and creative to lure customers with competitive room rates and variety of bargain package promotions to compensate for lower profit margins resulted from lower occupancy demand. Aggressive advertising and promotional campaigns by the Tourism Bureau are needed in attracting visitors from various countries.

Table 18

ARR of Jakarta Hotel Market by Star Rating (1H 2010)

Market Segment	Average Room Rates (ARR)		Price Changes from 2H 2009	
	Rupiah	US$	Rupiah	US$
3-Star Hotels	Rp306,967	$33.80	- 6.42 %	- 3.15 %
4-Star Hotels	Rp442,695	$48.74	- 2.65 %	0.75 %
5-Star Hotels	Rp717,738	$79.02	- 2.91 %	0.48 %
Overall Hotels	Rp489,133	$53.85	- 3.59 %	- 0.22 %

US$1 = Rp9,083

Source: Knight Frank / PT. Willson Properti Advisindo

Table 19

RevPar of Jakarta Hotel Market by Star Rating (1H 2010)

Market Segment	Average Room Rates (ARR)		Price Changes from 2H 2009	
	Rupiah	US$	Rupiah	US$
3-Star Hotels	Rp210,495	$23.17	- 14.83 %	- 11.86 %
4-Star Hotels	Rp311,115	$34.25	- 7.32 %	- 4.09 %
5-Star Hotels	Rp383,151	$42.18	- 5.12 %	- 1.81 %
Overall Hotels	Rp301,587	$33.20	- 8.30 %	- 5.10 %

US$1 = Rp9,083

Source: Knight Frank / PT. Willson Properti Advisindo

Research

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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.

Photo Credit
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