

Bali

HIGHS

&

LOWS



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For most, investing in Balinese property is a money-making, tropical dream, whereas for the unwary a nightmare awaits.

WORDS IAN LLOYD NEUBAUER



Prices for waterfront parcels doubling every year. Villas selling for up to US\$11.5 million. Luxury estates and resorts popping up like mushrooms in slick urban centres crammed with designer food, fashion and nightlife. No, it's not Sydney or Shanghai, or any other global city. It's not even a city — it's Bali, the so-called Island of the Gods for its thousands of Hindu temples dotting its volcanic hillsides, emerald-green rice paddies, and coconut-fringed beaches.

Popularised in the 70s by surfers looking for the ultimate waves, the Indonesian holiday island on Australia's northern doorstep has become synonymous with tropical getaways, attracting a whopping 4.2 million foreign tourists each year.

For tens of thousands of tourists, a week or two a year enwrapped in the balmy tropical heat and warm

hospitality of the Balinese people isn't enough. Instead, they concoct a hybrid investment-lifestyle property plan where they build a villa or buy a hotel suite off the plan for a fraction of the price it would cost back home. And when they're not in Bali, they can rent it out to cashed-up holidaymakers via websites like Airbnb, earning yields of up to 10 per cent.

Does it pan out? For some, yes. But for every success story, there is a hard-luck tale of a starry-eyed foreigner who lost everything, found themselves on the wrong side of the law or, in worst-case scenarios, became prey for local mafia.

WEALTHY BEYOND THEIR WILDEST DREAMS

The Bali bombings in 2002 did more than destroy families and lives. They wrecked an entire economy and put tens of thousands of people out of work. The property market predictably dived,

and then dived further when terrorists struck the island again in 2005.

In 2006, however, the property market pivoted north. By 2013, prices were soaring by 20 per cent per year and Bali was identified as the world's second-strongest growth market for luxury residential property in Knight Frank's annual 'Wealth Report'. "In the past 10 years, you could have bought anything in Bali and it would have gone up a lot," says Australian Matthew Georgeson, director of Elite Havens, a prominent realtor in Bali.

John Spence, the British CEO of boutique hotel developer and manager The Karma Group, offers a textbook example of successful property investment on the Indonesian island. In 2006, under the advice of a feng shui master, he bought a large parcel of cliff-top land with beach access and blindingly beautiful Indian Ocean views on the Bukit Peninsula, >>



John Spence bought on the Bukit Peninsula in 2006.

To this day, non-citizens aren't allowed to own land in Indonesia. They can only lease for 25 or 30 years and then theoretically extend those leases for up to 50 years more.

THE CATCH

From the fourteenth century onwards, a period of nearly 500 years, Indonesia was occupied by the Netherlands and managed as a disposable asset by the Dutch East India Company — the first multinational corporation in the world. So when the country finally won its independence in 1945, strict foreign investment laws were passed to prevent history from repeating itself.

To this day, non-citizens aren't allowed to own land in Indonesia. They can only lease for 25 or 30 years and then theoretically extend those leases for up to 50 years more.

There are, however, ways to find loopholes in the law. Karma Kandara, for example, sells its villas under a complex freehold title that is part of a company title. Then there's the nominee arrangement — a creative ownership structure where foreigners purchase land under freehold titles using an Indonesian-born citizen or their Indonesian spouse as a proxy. The two parties then co-sign a contract that identifies the nominee as the 'legal' owner and the foreigner as the 'rightful' owner of the land with unlimited and indefinite access rights. More than 10,500 properties worth an estimated US\$8.4 billion are currently owned under such structures in Bali.

But there's a catch. Nominee deals are technically illegal and the nominee

can take possession of the land whenever they please.

That's exactly what happened to US national Susi Johnston when her Indonesian nominee signed over their assets — including her multimillion-dollar villa in the hip Balinese surfer town of Canggu — to loan sharks. The new 'legal' owners of Susi's villa then took her to court to evict her — and won. But she refused to leave, saying she had been ill-advised by lawyers and the public notary who told her nominee deals were legally binding.

The new owners then took the law into their own hands or, better said, into the hands of local mafia. In the following months and years, they raided Susi's villa, stole all her furniture, planted drugs in the house, and threatened her with guns and machetes.

Now living in Seattle, she describes her experience in Bali as "the most traumatic thing" that ever happened to her. "I wish it had never happened," says Susi. "I lost five years of my life and US\$2 million, and there is absolutely nothing that will stop anyone who buys property in Bali from falling into the same trap."

Susi says she knows of around 200 similar cases in Bali — and that foreigners stand no chance of winning. "The courts in Bali work like auctions: you have to make a bid to win and bribe them," she says. "The fact is there is no rule of law in Indonesia."

RISE AND FALL

Last March, Indonesian Planning Minister Ferry Mursyidan Baldan told Indonesian news magazine *Kompas* the government planned to crack down on foreigners owning land illegally in Bali. "We'll convert the title. If he has a wife, then ownership will be in her name, but

if not it will be taken by the state," the minister said. The development sent shockwaves through Bali's expat community and, according to some, sent parts of the Balinese market into a downwards spin.

"People have used that as a trigger and started to sell, so it's certainly a buyers' market, and bargains are to be had," says Stewart Strong, an Australian property broker developing land on Bali's sister island Lombok. "There are lots of emotional sellers who are desperate to get out of Bali."

But a study of Knight Frank's 'Wealth Report' over the years shows Bali's property market has been softening for some time. In the latest edition based on sales results from 2015, Bali slid from second to sixty-fourth of the list, while growth has flatlined.

Yet according to Australian Chris Berney, general manager of NTB Capital — a brokerage firm that advises foreigners on how to invest confidently in Bali — prices have stagnated because of an oversupply of stock.

"Every couple of years, we hear this kind of rhetoric from the government, that they're going to crack down, but nothing ever changes," Chris says. "The real reason demand is soft is because there is so much product available and the competition for rentals is fierce, especially from the hotel side of things, and that has put negative pressures on rental yields. Owners are finding them difficult to rent out. I tried to rent my villa on Airbnb and got one inquiry in 12 months."

Matthew of Elite Havens describes the changing market conditions as an "adjustment, not a correction. But it won't last long. I think we are going to get another run on Bali property after the tax amnesty."

Last July, the Indonesian government introduced a limited-time tax amnesty to help the country recover billions of dollars in revenue lost to assets hidden overseas, with attractive tax rates for citizens who re-invest their assets within the country. The first phase of the amnesty reached 90 per cent of its target, with the government expecting around US\$76 billion in repatriated assets when the tax amnesty ends on 1 March.

"I think a large chunk will go into the big real estate, and a lot of that will land in Bali because it's the country's premier tourist destination," Matthew says. "We probably won't see the spectacular gains we've seen over the past 10 years, but I think there'll be a continual rise for many years to come." ■



Susi Johnston bought her villa with the nominee system...



...and it fell into the hands of the mafia.



Karma Kandara has 72 villas.



Drinks in the jacuzzi at Karma Kandara.

a then-discarded backwater in the deep south.

"People said I was mad, that it was too dry, the cliff was too steep, and the Bukit was too far away from the centre of Bali," John says. "None of that fazed me because I originally bought the land to build a villa for my retirement. But when it started going up in value, I decided to build a small resort that opened in 2011 with a cable car going to the beach."

The property, Karma Kandara, is now a sprawling cliff-top complex with 72 villas and another 30 more under construction selling off the plan for US\$1 million a pop. Owners typically

live in their villas for one month each year and place them in the hotel's inventory for the rest of the year with guaranteed minimum rental yields of 5 per cent.

Land values on the Bukit Peninsula, meanwhile, have gone through the roof, making John and his partners wealthier than their wildest dreams. John won't divulge specific numbers, but when I ask if it's accurate to say land values on the Bukit have doubled every year in the past 10 years, he says, "At a minimum — probably much more. We couldn't possibly afford to buy it now." He adds, "That was the secret of our success. We got in ahead of the game."