

Aug 11, 2020

# NEWSLETTER



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## INDONESIAN VERSION OF REAL ESTATE INVESTMENT TRUST (REIT)

### SUMMARY

The Real Estate Investment Fund (*Dana Investasi Real Estat* or “**DIRE**”) has been known since 2007 in Indonesia. It has been regulated under the Regulation of Capital Market and Financial Institution Supervisory Agency (*Badan Pengawasan Pasar Modal dan Lembaga Keuangan* or “**Bapepam-LK**”), currently known as Regulation of Financial Services Authority (*Otoritas Jasa Keuangan* or “**OJK**”). The regulation of DIRE has been amended from time to time and most recently, the OJK issued the Regulation of OJK No. 64/POJK.04/2017 concerning Real Estate Investment Fund in the Form of Collective Investment Contract (“**POJK 64/2017**”), which revoked the old regulations.

### BACKGROUND

The investment method in the property sector is currently undergoing development, not only in the format of selling and purchasing buildings or lands, but also among other things like purchasing shares of the property companies. In addition, another property investment method named DIRE was also introduced to the Indonesian market in 2007. DIRE is an investment method that adopts the Real Estate Investment Trust (REIT) method which was first introduced in the United States in the 1960s as an affordable property investment vehicle for the public.

Pursuant to POJK 64/2017, DIRE is an investment instrument that collects funds from the investors to be invested at least 80 % of directly in the real estate asset (physical asset) or indirectly by owning the shares of a company and/or investing in the asset related to the real estate by cash or cash equivalent in a form of Collective Investment Contract (“**CIC**”). CIC is made by and between investment manager and custodian bank that binds the unit holder. The investment manager is authorized to manage the collective investment portfolio while the custodian bank is a commercial bank that has obtained approval from OJK to provide custodian services. Since Indonesia does not specifically recognize the concept of trust, therefore a DIRE may only be invested in a form of a CIC.

### THE GROWTH OF DIRE IN INDONESIA

Although DIRE has been known since 2007, it remains unpopular in Indonesia as a consequence of the high tax rates on the sale and purchase of property and capital gain tax on selling the shares of the relevant property company. Until recently, there are only 3 (three) DIRE that have been listed in the Indonesia Stock Exchange *i.e.* DIRE Ciptadana Properti Ritel Indonesia listed since 2013, Solo Grand Mall as its underlying asset, DIRE Ciptadana Properti Perhotelan Padjajaran listed on 2019, Hotel Padjajaran Suite as its underlying asset and the largest and most recent DIRE, Simas Plaza Indonesia. It has 4 (four) underlying assets which are Plaza Indonesia Shopping Mall, Hotel Grand Hyatt Jakarta, The Plaza Office Tower and FX Sudirman.

## CONSLUSION

The existence of DIRE in Indonesia can be considered relatively new. Looking into several changes in its regulation, we believe that the Indonesian Government has been putting great concern in enhancing this system and aims to make this investment method popular and favored by the Society. Although the regulations are not as comprehensive as other countries who had implemented REIT earlier, we believe the government will continue to improve and complete the existing regulations over the time by overseeing the implementation of DIRE in Indonesia.

If you have any queries or would like us to assist you with any aspects of REIT, please feel free to send your queries through [info@yangandco.com](mailto:info@yangandco.com).