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The Legal Due Diligence Checklist Every Foreign Investor Needs Before Buying Property in Indonesia

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Indonesia continues to draw a distinctive mix of capital: family offices diversifying into hospitality and residential real estate, entrepreneurs building villa and apartment portfolios, and private equity investors backing branded residences and resort developments. From Bali and Lombok to Jakarta, Bintan, and emerging secondary cities, the country's tourism fundamentals, growing middle class, and relative value against other regional markets make it one of the most closely watched property markets in Southeast Asia.

What often receives less attention than it deserves is legal due diligence. Investors routinely commission detailed financial models, feasibility studies, and market comparables, yet rely on a broker's assurance, a developer's brochure, or a notary introduced by the seller to confirm that a property can legally be owned, built on, and operated. In Indonesia, where land rights, zoning, building compliance, and foreign investment rules interact in ways that have no direct equivalent in most Western jurisdictions, and where practice can vary meaningfully between regions, that reliance is where value is lost.

Legal due diligence in Indonesia is not a formality to complete after commercial terms are agreed. It is the process that determines whether the commercial terms are even achievable. Below, we set out seven legal checks every foreign investor should complete before signing a transaction, wherever in Indonesia the property is located.

Verifying the Land Title

Everything else in an Indonesian property transaction is built on top of the land title. Before anything else is negotiated, an investor needs certainty on what type of right attaches to the land, who is the registered holder, whether the certificate is genuine and up to date at the local Land Office (*Badan Pertanahan Nasional* or "**BPN**"), and whether the land is free of mortgages, court disputes, or blocking notations (*sita* or *blokir*).



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Indonesia does not have a single, unified concept of "ownership" in the way common law jurisdictions do. Rights are layered under the Law No. 5 of 1960 on the Basic of Agrarian Law (*Undang-Undang No. 5 Tahun 1960 tentang Peraturan Dasar Pokok-Pokok Agraria* or "**UUPA**") and its modern implementing regulation, Government Regulation No. 18 of 2021 on the Management Rights, Land Rights, Apartment Units, and Land Registration (*Peraturan Pemerintah No. 18 Tahun 2021 tentang Hak Pengelolaan, Hak Atas Tanah, Satuan Rumah Susun, dan Pendaftaran Tanah* or "**GR 18/2021**"), which restructured the hierarchy of Right to Cultivate (*Hak Guna Usaha* or "**HGU**"), Right to Build (*Hak Guna Bangunan* or "**HGB**"), and Right to Use (*Hak Pakai*), and governs how these rights are granted, extended, and renewed. Getting the wrong right, or acquiring a right that cannot legally be held by a foreign owned entity, is a structural problem that surfaces long after signing, typically at the worst possible moment: sale, financing, or licensing.

There is also a live, time sensitive issue investors should be aware of in 2026, and it applies nationwide. Older forms of customary land evidence, such as *Girik*, *Petok D*, and *Letter C*, ceased to serve as valid proof of ownership as of 2 February 2026 under GR 18/2021. Land still held on this basis must be converted to a proper certificate through the national land registration program. This is especially relevant outside major cities, where customary documentation remains more common, and any acquisition involving land that has not yet made this transition carries materially higher risk than a fully certified title.

A common oversight illustrates why this check matters in practice. A seller presents a document that is in fact an old customary land record, or a certificate that was never registered in the current owner's name following a prior informal transfer. Without a title search directly at the Land Office, a buyer may pay full price for a right the seller cannot actually convey.

Confirming the Zoning

An attractive location does not necessarily come with the right to build a villa, an apartment tower, a restaurant, or a hotel on it. Indonesia's spatial planning system designates land through regional and detailed spatial plans (*Rencana Tata Ruang Wilayah* or "**RTRW**" and *Rencana Detail Tata Ruang* or "**RDTR**") into zones, including tourism, residential, commercial, agricultural, and green or protected areas, each



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carrying its own permitted uses, height limits, and building coefficients. These plans are set at the provincial and municipal level, which means zoning rules and their strictness can differ considerably between Jakarta, Bali, and other regions.

This is governed at the national level by Law No. 26 of 2007 on Spatial Planning, with licensing now processed through the government's risk-based business licensing regime. Zoning confirmation should always be obtained in writing from the relevant planning office or one stop licensing service, never taken on an agent's word, because a mismatch between intended use and zoning designation can block business licensing entirely, regardless of how clean the land title is.

Certain high demand tourism areas, particularly parts of Bali, also have active construction moratoriums in specific coastal and high-density zones, and comparable local restrictions exist in other regions. These apply irrespective of an investor's nationality or structure. Confirming a plot sits outside any applicable moratorium, and within a zone that supports the intended commercial use, is a precondition to any further due diligence, not an afterthought.

Investors are frequently drawn into trouble here by relying on a developer's assurance that rezoning is easy or that everyone builds in a particular area regardless of its designation. Rezoning is discretionary, slow, and never guaranteed, and building without proper zoning clearance exposes the investor to demolition orders.

Verifying Building Legality

Owning the land is a separate legal question from owning a compliant building on it. Since the Job Creation Law reforms, the old building permit (*Izin Mendirikan Bangunan* or "**IMB**") has been replaced nationwide by the Building Approval (*Persetujuan Bangunan Gedung* "**PBG**") and the Certificate of Function Worthiness (*Sertifikat Laik Fungsi* "**SLF**"), both governed by GR 16/2021 implementing Law No. 28 of 2002 on Buildings.

The distinction matters commercially. PBG confirms the design was approved before construction, while SLF confirms the completed structure was actually built as approved and is safe to occupy. Enforcement of this framework has tightened considerably across the country. As of 2026, properties without a valid SLF face restrictions on legal occupation and rental operation, and this is being enforced with



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particular rigour in tourism destinations such as Bali, where non-compliant listings are increasingly delisted from booking platforms as regulators push for a fully documented, tax compliant sector. Any extension, renovation, or change of function to an existing building must also be reflected in updated approvals. A property extended without amending its PBG is, on paper, non-compliant regardless of build quality.

This is where resale properties often carry hidden risk. A property may be marketed with an additional wing, floor, or rooftop feature that was never included in the original approved plans. The investor then inherits a building that cannot obtain, or keep, a valid SLF until the discrepancy is resolved, often at significant cost.

Reviewing Existing Contracts

Property in Indonesia rarely transfers as a clean slate. Lease agreements with existing tenants, management agreements, construction contracts with unpaid retentions, operator agreements, and financing arrangements can all run with the property rather than terminate on sale.

Under the Indonesian Civil Code (*Kitab Undang-undang Hukum Perdata*), a valid agreement generally requires the elements set out in Article 1320, namely consent, capacity, a specific object, and a lawful cause, and once validly formed, Article 1338 treats a contract as binding law between the parties. This means an investor who fails to review existing arrangements may find themselves bound by a long-term management contract with unfavourable commercial terms, or contesting an operator's claim to continued possession.

Experienced counsel typically requests a full contract file as a condition to closing, not merely the sale and purchase agreement, and builds specific representations and indemnities around undisclosed liabilities.

A recurring pattern illustrates the risk well. A property is sold with a promise of vacant possession, but an operator holds an unregistered management agreement with several years remaining and a termination clause requiring substantial compensation. The buyer only discovers this after settlement, when the operator refuses to vacate.



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Reviewing Licences and Business Compliance

Legally owning a property and legally operating a business from it are two different regulatory tracks. Any commercial use, such as short-term rental, a restaurant, a spa, or a hospitality operation, requires registration through Indonesia's Online Single Submission ("**OSS**") licensing system, obtaining a Business Identification Number (*Nomor Induk Berusaha* or "**NIB**"), and selecting the correct business classification code (*Klasifikasi Baku Lapangan Usaha Indonesia* "**KBLI**") that matches the actual activity.

The underlying licensing framework has itself recently changed nationwide. Government Regulation No. 28 of 2025 on the Implementation of Risk-Based Business Licensing (*Peraturan Pemerintah No. 28 Tahun 2025 tentang Penyelenggaraan Perizinan Berusaha Berbasis Risiko* or "**PP 28/2025**") overhauled and replaced the previous risk based licensing regulation, expanding sectoral coverage and formalising how supporting business licences interact with building approvals. Investors relying on older summaries of the prior regulation should confirm current requirements, since the licensing landscape and classification codes are actively being updated.

Foreign individuals cannot generally hold these licences directly. A foreign owned company (*Perseroan Terbatas Penanaman Modal Asing* or "**PT PMA**") is typically required, with its own minimum capital and reporting obligations, including periodic investment activity reports.

The compliance gap shows up most often in informal rentals, a pattern common in tourism regions but by no means limited to them. A property is rented out under a personal name or an informal arrangement with no NIB, no correct KBLI classification, and no relevant accommodation licence. Enforcement action can halt operations and expose both the owner and any local nominee arrangement to legal risk.

Reviewing Tax Exposure

Tax due diligence in an Indonesian property transaction is less about calculating the applicable rate and more about identifying exposure that transfers with the property. This can include unpaid land and building tax (PBB), unreported rental income,



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outstanding acquisition duty (BPHTB), and, where a company is being acquired rather than the asset itself, historical tax liabilities sitting inside that corporate vehicle.

Indonesia's tax framework was significantly restructured by Law No. 7 of 2021 on the Harmonisation of Tax Regulations, which continues to shape rates and compliance obligations relevant to property transactions and rental income today, across all regions. A tax due diligence exercise should confirm the seller's payment history, reconcile declared rental income against actual operations, and, in a share deal, review the target company's tax filings in full.

Cost cutting shortcuts are a common trap here. A seller may offer a discounted BPHTB or omit it from the transaction entirely to save costs. Beyond the compliance risk this creates for the buyer going forward, unpaid property tax can attach to the land itself and follow the asset through a sale.

Assessing the Investment Structure

The final check is arguably the most consequential, because it is made earliest and is hardest to unwind later: how should the investment actually be structured? Options range from a personal leasehold, to *Hak Pakai* (Right to Use) held individually by a foreign national, to establishing a PT PMA that holds HGB or *Hak Pakai* over the land, to acquiring an existing corporate vehicle by way of share purchase rather than a direct asset deal.

Each structure carries different consequences for control, tax treatment, financing eligibility, exit strategy, and inheritance planning, governed by the interaction of Law No. 25 of 2007 on Investment, the current risk-based licensing regulation, and the land rights regime under the Basic Agrarian Law and GR 18/2021. A structure chosen for short term convenience, such as a long-term lease with informal side letters, can prove very difficult and costly to convert into a bankable, transferable asset years later, regardless of which part of Indonesia the property sits in.

One arrangement in particular deserves caution. An investor may be advised to use an Indonesian nominee to hold freehold land on their behalf. Nominee arrangements of this kind are not legally recognised anywhere in Indonesia and offer no enforceable protection to the foreign party. If the arrangement unravels, the foreign investor typically has no legal claim to the land at all.



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Conclusion

None of these seven checks is optional, and none can be reliably substituted by a broker's reassurance or a developer's marketing material. Together, they form a strategic risk management exercise that protects the value an investor is paying for, not a bureaucratic step to be completed after the commercial deal is struck.

Indonesia's property market rewards investors who move quickly, but the legal framework underneath it rewards those who move carefully, whether the target property is a villa in Bali, an apartment in Jakarta, or a resort site elsewhere in the archipelago. Before signing a reservation agreement, a sale and purchase deed, or a lease, it is worth having experienced Indonesian counsel confirm that what is being bought is what it appears to be.

Lexeron Advocates advises foreign investors, family offices, and hospitality operators on land title verification, structuring, licensing, and transaction execution across Indonesia. If you are considering a property acquisition or investment structure in Indonesia, we welcome the opportunity to discuss how we can support your due diligence process.