



# The Knowledge Report

OFFICE | SECOND QUARTER | 2008

## INDICATORS

YEAR	3T-08	4T-08
Vacancy Rates	↓	↓
Net Absorption	↑	↑
New Offer	—	↑
Lease Price	↑	↑

### IS THERE ROOM FOR B CLASS BUILDINGS?

Definitely, yes. The entry of a great amount of prime offices (A+ and A class) projects responds to the lack of product and the need of space.

However, the good results obtained by local and foreign companies that currently occupy houses or old low-cost buildings, generate a real opportunity to assist a segment of the market that could improve its premises without making investments that do not meet their possibilities.

Developers that have invested in Chacarilla and Monterrico, with excellent occupation results, have not yet fulfill the requirements of companies that demand big spaces.

Take note, then, that in the B class segment with a big format there is a business opportunity.

## THE MARKET SETTLES DOWN

By the end of the second trimester of the year, two questions remain lose: (1) how many square meters will be hand over to the market in the next three years? and (2) what will the demand be for the next two years?

During the first trimester of the year, the gross absorption (total of transactions) ascended to 42,519 m<sup>2</sup>, from which 38,249 m<sup>2</sup> can be qualified as real demand (net absorption). To the date, the availability of spaces is 4,142 m<sup>2</sup>, which would allow the real demand of 2008 to reach 52,059 m<sup>2</sup>, including the two buildings that will be handed over this year (9,638 m<sup>2</sup>).

During 2009, 210,944 m<sup>2</sup> (21 buildings) will be handed over, from which, approximately 30,000 m<sup>2</sup> (12%) have already been occupied (sold or leased). It is possible that in the next six months the occupation of these projects will become even more dynamic and that the more emblematic buildings enter the market with a total occupation; however, the level of demand remains unpredictable. Our opinion is that the annual occupation will hardly overcome the 100,000 m<sup>2</sup>.

Certainly, some of the projects that are currently part of the future offer might delay their entrance into the market or will never become a reality; but, from the buildings to be handed over during the year 2009 (210,944 m<sup>2</sup>), we consider that approximately 37,690 m<sup>2</sup> (5 buildings) maintain such risk, which would leave a real offer of minimum 173,254 m<sup>2</sup>.

With a future offer that will be significantly higher than the demand, it is important to analyze which buildings will benefit from this occupation. Definitely, some areas will raise a greater interest than others, such as San Isidro el Golf. In other cases, the product acts as a differentiator element. However, this depends on the customers' profile and the price they are willing to pay.

We believe the critical factor for the final user of an office is certainty; that is, offering a date to hand over the building. In that sense, some projects have a clear advantage, whether they are being built or because the developer offers reliable execution guarantees. Being this the reality, we could say that projects such as Cronos (4 towers), Alto Caral, Capital, Ábaco, Esquilache, Torre Pinar, Encalada and América currently have a significant advantage over other buildings.

Regarding the product, there is great similarity amongst the safety standards against fires and breaking and entering situations, but some criteria are raising and might become competitive advantages. COINSA will start the construction of the first "green building", (a 2-building office complex) with features that maximize the efficacy of operation and reduce the energy consumption.



## THE MARKET AND THE INVESTORS

Currently, there are some investors avid to totally or partially acquire Real Estate projects, especially within the office sector.

It is possible to identify two kinds of investors: (1) with a financial profile, such as investment funds and life insurance companies and (2) private or “family office” investors, basically formed by family groups. And in both cases we can find local and foreign investors.

The acquisition of spaces by investors does not reduce the vacancy rate since their business is based on leasing. Therefore, a rule could arise from this: the more investors, the more spaces to be leased.

The presence of investors in the market also sets the asking prices, for their establishment depends on the leasing values that might be obtained and the desired profitability to be generated. In other words, if the asking price is US\$ 15 / m<sup>2</sup> and the minimum rebate for the investor is 15% (using the “cap rate” method), the asking price could not be higher than US\$ 1,200 / m<sup>2</sup>. However, the rebate expectations differ from one kind of investor to the other, mainly due to their place of origin.

Currently, life insurance companies have actively entered the office market. InVita totally acquired the San José building, recently handed over. On the other hand, Pacífico Vida bought 30% of the Centro de Negocios Cronos (still in its construction stage) developed by Inversiones Centenario.

Investment funds also have a participation in the market. Multirenta Inmobiliaria, administrated by AC Capitales, has had some office spaces for several years now. It is possible that, in the near future, other funds acquire projects, whether totally or with at least the control of the property (50% + 1).

A characteristic associated to investors is to purchase while still in project, which allows them to obtain convenient prices and, in exchange, the developer reduces risks and lowers the investment.

## CURRENTLY PROFILE OF OFFICE PROJECTS

Some of the characteristics that used to differentiate buildings are now exigencies required by regulatory organisms (local councils or Defensa Civil). For example, in most buildings, the installation of “sprinklers” is obligatory since their existence is associated to a minimum perimeter. The same happens with stairs, which must be pressurized, with anti-fire doors and anti-panic bars.

The level of equipment of an A+ building might be summarized with the following list:

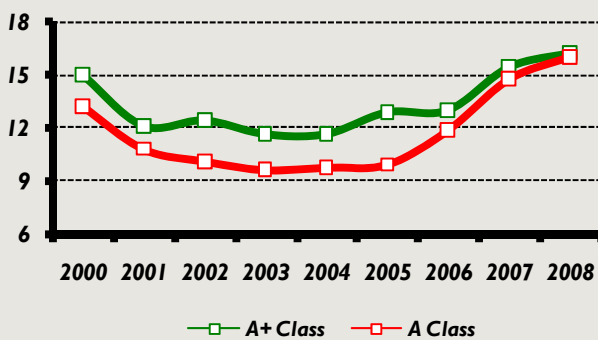
- Parking spaces: It depends on the local council’s requirements. However, to meet the users’ demand, the building must have a parking lot of at least 40 m<sup>2</sup>.
- Facade: curtain wall. Insulated glass (a double glass with an interior air layer) has thermic and acoustic isolation properties.
- Height: 2.70 mts. to the ceiling.
- Central air conditioning: (generation of frozen water by a central unit or “chiller”).
- Complementary spaces: multiple use room, cafeteria and suppliers assistance room.
- Elevators: maximum waiting time of 30 seconds.
- Power generator: general services and critical energy per office.
- Access control: CCTV, proximity cards in accesses and control turnstiles for the lobby.
- Anti-fire security systems: sprinklers and smoke detectors in all areas and pressurized stairs.
- Automation: anti-fire and breaking and entering security systems, electro-mechanical equipments, elevators, etc. monitored by a central unit.

An A class building must have most of the previously mentioned characteristics, specially the anti-fire and breaking and entering security systems.

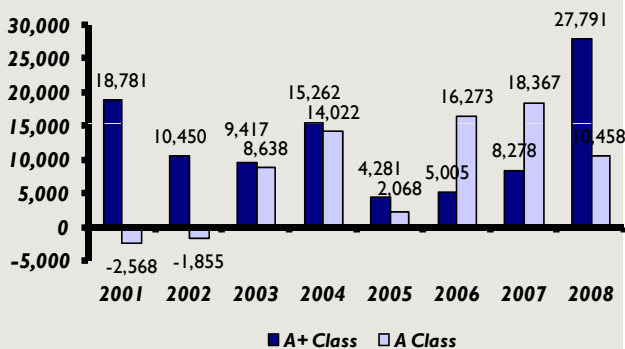
Operation	Year								Total	
	2008		2009		2010		2011		(2008 - 2011)	
	m <sup>2</sup>	%	m <sup>2</sup>	%	m <sup>2</sup>	%	m <sup>2</sup>	%	m <sup>2</sup>	%
Lease	5,642	59%	71,421	34%	22,080	19%	30,000	43%	129,143	32%
Sale	3,996	41%	101,352	48%	19,755	17%	0	0%	125,103	31%
Lease / Sale	0	0%	38,171	18%	77,178	65%	40,000	57%	155,348	38%
<b>Total</b>	<b>9,638</b>	<b>100%</b>	<b>210,944</b>	<b>100%</b>	<b>119,013</b>	<b>100%</b>	<b>70,000</b>	<b>100%</b>	<b>409,594</b>	<b>100%</b>

Current Stock - Prime Office Market				
Area	Stock (m <sup>2</sup> )		Vacancy (m <sup>2</sup> )	
	A+	A	A+	A
San Isidro Saga	112,373	89,631	0	2,940
San Isidro Golf	48,212	55,835	396	0
Miraflores	16,597	27,103	0	806
San Borja	9,804	0	0	0
Este	36,755	0	0	0
<b>Subtotal</b>	<b>223,741</b>	<b>172,570</b>	<b>396</b>	<b>3,746</b>
<b>Total</b>	<b>396,311</b>		<b>4,142</b>	
<b>Vacancy Rate</b>			<b>0.18%</b>	<b>2.17%</b>
<b>Tasa Vacancy Rate</b>			<b>1.05%</b>	

Lease Rates (asking) - A+ & A Classes



Net Absorption per Class



Transactions per Operation 2001 - 2008

Type Operation	Area (m <sup>2</sup> )	%
Lease	171,249	68%
Sale	81,000	32%
Superior to 3,001 m <sup>2</sup>	38,101	15%
"Build to suits"	14,945	6%
Less to 3,000 m <sup>2</sup>	27,954	11%
<b>Total</b>	<b>252,250</b>	<b>100%</b>

## OFFER

The stock increased in 27,844 m<sup>2</sup> with the incorporation of the Parque Plaza, Santo Toribio and San José buildings into the market.

To the date, the vacancy rate is only 1.05%, with only 4,142 m<sup>2</sup> available.

In the following months, 9,638 m<sup>2</sup> will be incorporated into the market, corresponding to the Esquilache and the Víctor Andrés Belaúnde buildings.

## DEMAND

The gross absorption (transactions) of the second bimester of the year ascended to 36,902 m<sup>2</sup>. On the other hand, the demand (net absorption) during the same period was 33,874 m<sup>2</sup>.

Basically, the demand arises from the spaces occupied in the three buildings handed over to market (Parque Plaza, Santo Toribio and San José), which are almost completely occupied.

Regarding the size of the transaction, the average area was 923 m<sup>2</sup>, remarkably higher than the historical average (533 m<sup>2</sup>).

## PRICES

The lease and asking prices are still being set by the value of the projects being commercialized.

It is possible to observe a slight increase in the price of some buildings that have started their construction stage and in others that have been occupied during the last trimester.

The average profitability of the office market (using the "cap rate" method) ascends to 14.2%.

Lease and Sale Prices				
Building	Lease		Sale	
	Area (m <sup>2</sup> )	Price (US\$)	Area (m <sup>2</sup> )	Price (US\$)
<b>A+ Class</b>	<b>139,586</b>	<b>15.9</b>	<b>80,904</b>	<b>1,348</b>
Cronos	23,864	16.0	—	—
Alto Caral	13,599	15.5	—	—
CE Miraflores II	13,648	16.5	—	—
Plaza República	25,459	16.5	25,459	1,450
Capital	14,571	17.5	—	—
Las Cumbres	48,445	15.0	48,445	1,250
América	—	—	7,000	1,650
<b>A Class</b>	<b>11,946</b>	<b>15.7</b>	<b>16,174</b>	<b>1,307</b>
Esquilache	5,646	16.5	—	—
Torre Pinar	—	—	9,874	1,375
Encalada	6,300	15.0	6,300	1,200
<b>Total</b>	<b>151,532</b>	<b>15.9</b>	<b>97,078</b>	<b>1,341</b>

## FUTURE OFFER

- Total area (3T-2008 to 2011): 409,594 m<sup>2</sup>
- 32 buildings.
- Distribution of spaces per type of commercialization:
  - Lease: 123,143 m<sup>2</sup> (32%)
  - Sell: 125,103 m<sup>2</sup> (31%)
  - Lease and/or sell: 155,348 m<sup>2</sup> (38%)
- Distribution of spaces per zone:
  - San Isidro Saga: 182,283 m<sup>2</sup> (45%)
  - San Isidro Golf: 99,607 m<sup>2</sup> (24%)
  - Miraflores: 24,221 m<sup>2</sup> (6%)
  - East: 103,483 m<sup>2</sup> (25%)
- Project of greater area: Plaza República (2 towers of 27,589 m<sup>2</sup> each. Total: 55,178 m<sup>2</sup>)
- Projects to be executed for sure: 334,435 m<sup>2</sup> (28 buildings)

Prime Market - Future Supply (per Year and Area)					
Area	Offices (m <sup>2</sup> )				
	2008	2009	2010	2011	Total
SIS	0	75,025	77,258	30,000	182,283
SIG	9,638	27,969	22,000	40,000	99,607
MIR	0	24,221	0	0	24,221
SB	0	0	0	0	0
ESTE	0	83,728	19,755	0	103,483
<b>Total</b>	<b>9,638</b>	<b>210,944</b>	<b>119,013</b>	<b>70,000</b>	<b>409,594</b>

Future Supply - Market Prime (2008 - 2011)							
Building	Class	Area	m <sup>2</sup>	Delivery Estimated Date			
				2008	2009	2010	2011
Victor Andrés Belaúnde	A	SIG	3,996				
Esquilache	A	SIG	5,642				
Cronos - Torres 1 y 2	A+	ESTE	12,667				
Encalada	A	ESTE	6,300				
Cronos - Torres 3 y 4	A+	ESTE	11,197				
CE Miraflores II	A+	MIR	11,550				
Capital	A+	SIS	14,571				
Alto Caral	A+	SIS	13,599				
Ábaco	A	SIS	4,837				
Torre Pinar	A	ESTE	9,874				
Qubo	A	ESTE	15,000				
América Leasing	A+	SIG	5,769				
Inversiones Granadero	A+	SIG	3,000				
MiraCorp	A	MIR	12,671				
América	A	SIS	6,479				
Torre Pacífico	A	SIS	4,900				
Imagina	A+	SIS	10,640				
Real 8	A+	SIG	19,200				
COINSA - Green I	A+	SIS	14,500				
COINSA - Green II	A+	SIS	5,500				
Las Cumbres de La Molina - T1 y T2	A+	ESTE	28,690				
Las Cumbres de La Molina - T3 y T4	A+	ESTE	19,755				
Plaza República - Torre 1	A+	SIS	27,589				
Pardo y Aliaga	A+	SIG	22,000				
Torre HSBC	A+	SIS	22,080				
Plaza República - Torre 2	A+	SIS	27,589				
Parque El Golf - Torres 1 y 2	A+	SIG	40,000				
Torre Javier Prado	A+	SIS	30,000				

## FORECAST

In the next three months, the available spaces within the existing buildings will be absorbed (4,142 m<sup>2</sup>), and those that have not been occupied yet in the Esquilache building (approximately 4,600 m<sup>2</sup>) will be too. Likewise, new transactions will be generated on spaces that will be vacant after companies move their current offices to recently finished projects, increasing the gross absorption, but not the demand (net absorption).

On the other hand, the offer will continue stable during the third trimester, since the remaining projects that correspond to this year will be finished between October and December (Esquilache and Víctor Andrés Belaúnde).

The lease and asking prices will continue to increase, boosted by the current unsatisfied demand and by the race that will be generated to ensure spaces in projects that have achieved significant occupation figures. Currently, no lease operations have been registered for less than US\$ 15 / m<sup>2</sup>. We estimate that this year the average will not overcome the US\$ 17 / m<sup>2</sup>.

During the third trimester of the year, investors will close important purchase operations, both with a financial profile and "family office" ones. The level of investments will reach figures that have never been registered before, overcoming the US\$ 20 MM in two cases. These transactions will change the composition of buy and/or sell spaces, since over 30,000 m<sup>2</sup> will integrate the office portfolio for lease.

Finally, the incorporation of the first green complex (20,000 m<sup>2</sup>) will open doors to a demand that currently qualifies as unattended and unknown. Without a doubt, this is an important effort to satisfy companies linked to the environment and to those that consider that investing in optimizing resources generates long-term savings.

Market Office Prime - Lima, Peru  
2T - 2008

Area	Class	N°	Stock (m <sup>2</sup> )	Vacancy		Net Absorption	Gross Absorption	Lease Price (US\$ / m <sup>2</sup> )	Sale Price (US\$ / m <sup>2</sup> )
				m <sup>2</sup>	Rate				
San Isidro Saga	A+	9	112,373	0	0.0%	12,549	13,212		
	A	12	89,631	2,940	3.3%	4,317	5,048		
		21	202,004	2,940	1.5%	16,866	18,260	--	--
San Isidro Golf	A+	8	48,212	396	0.8%	15,562	16,362		
	A	9	55,835	0	0.0%	0	265		
		17	104,048	396	0.4%	15,562	16,626	--	--
Miraflores	A+	1	16,597	0	0.0%	0	0		
	A	6	27,103	806	3.0%	1,447	252		
		7	43,700	806	1.8%	1,447	252	--	--
San Borja	A+	2	9,804	0	0.0%	0	1,764		
	A	0							
		2	9,804	0	0.0%	0	0	--	--
La Molina	A+	3	36,755	0	0.0%	0	0		
	A	0							
		3	36,755	0	0.0%	0	0	--	--
Total / Average	A+	23	223,741	396	0.2%	28,111	31,338	15.9	1,347.5
	A	27	172,570	3,746	2.2%	5,764	5,565	15.7	1,306.8
		50	396,311	4,142	1.0%	33,874	36,902	15.9	1,340.8

**Note:** the average lease and asking prices come from the projects being commercialized, due to the low importance of the values that correspond to the spaces available in the existing buildings.

293 OFFICES IN 61 COUNTRIES  
ON 6 CONTINENTS

USA 99  
Canada 19  
Latin America 18  
Asia Pacific 62  
EMEA 95

868 million square feet under  
management

11,000 Professionals

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