



The Knowledge Report

OFFICE | FIRST QUARTER | 2008

INDICATORS

YEAR	2T-08	3T-08
Vacancy Rate	↓	↓
Net Absorption	↑	↑
New Offer	↑	—
Lease Price	↑	↑

BEWARE OF THE DEMAND

After the fast collocation of the buildings to be delivered during 2008, it is possible to think of an actually increasing demand overtaking the projects that will enter the market in 2009.

However, during the first three months of 2008 there has been a deceleration in the demand. The growth of firms that already occupy A+ and A class buildings is notorious; but there are now some vacant spaces competing with the future offer.

A minimum percentage of the buildings to be delivered during 2009 have been placed. However, it is possible to expect that the collocation of these projects increases during the second semester of 2008, for a great part of them will be delivered during the second half of 2009.

AND WHO WILL BE THE NEXT VICTIM?

During the first three months of 2008, the market for prime offices in Lima has sifted the composition of the future offer; that is, some of the projects that were considered as immediate have been delayed, which favors the performance of the buildings that will be delivered in 2009; but, on the other hand, it is critical for the situation of those that will be finished during 2010.

This situation has motivated, for example, Inversiones Centenario to execute, in one only stage and deliver during the first trimester 2009, the approximately 25,000 m² of the Centro de Negocios Cronos, located in the East side of Lima (Surco). It has been made clear that it is less risky to achieve total occupancy at high rates (approximately US\$ 15 / m²) during 2008, than a year later, since competition will get tougher and values might inevitably decrease.

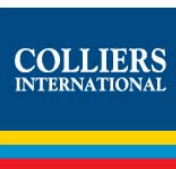
It is important to analyze the behavior of the market in order to understand the decisions made by entities such as Inversiones Centenario. They have acquired almost every piece of land on Av. Manuel Olgúin (Surco) that had the right characteristics to develop office buildings. Until now, they have registered 6 new projects with a total of 8 new buildings, which will initiate works in 2008 to be delivered during 2009. If we consider that the typical height of these developments is 10 floors and the typical average plant is 1,000 m², only on Av. Manuel Olgúin, there will be 80,000 m² to be delivered. If we add to this volume the area of the Centro de Negocios Cronos (25,000 m²) and the area of the Las Cumbres de la Molina complex (50,000 m², on part of the premises of IBM in La Molina), the new offer for the East side of Lima would be 155,000 m² (and this is without considering minor developments in the area).

If the global demand projected for the year 2008 was 70,000 m², and it is to be maintained for the year 2009, not even 50% of the future offer in the East side of Lima would be covered. If we consider that, historically, the demand has been oriented towards San Isidro almost in a 75%, what can we expect of these 155,000 m²? And here is when we can ask, which project will fail? Each one of the developers involved will think that their project will be a success, and it is exactly this optimism which causes the volume of the new offer to increase so rapidly.

The answer to this question is not hard to answer: speed. When facing an environment short in options, but with a high grade of competition and similar products, offering the consumers certainty, is a highly appraised attribute. And this is well known by developers.

This situation can be transferred to other areas with a significant future offer, such as San Isidro Saga, where new projects constantly appear on all streets with favorable regulations.

Investors, study the actual feasibility of the spaces before acquiring more overvalued pieces of land.



HOW MUCH MORE ARE PRICES OF LAND GOING TO RISE?

We are currently living a completely speculative stage regarding the prices of land in areas with a significant future offer. Basically San Isidro Saga, San Isidro El Golf and the East side of Lima are in this situation.

Acquiring spaces during the “boom” or growth stage is not the most recommendable, since the goodwill capacity is reduced and projects become more expensive. The best is to plan the purchase of the land during the gradual absorption stage, when prices reach their lowest level.

When new developers start realizing the imminent risk of entering the market during an advanced “boom” stage, the aggressiveness in the purchase of land will decrease and prices will stabilize.

There is no doubt that in the areas that lack spaces for offices (San Isidro Golf), prices will hardly decrease within a short term; basically because the high costs might be more beneficial than losing the opportunity of owning a piece of land; resulting in a tendency to acquire the totality of spaces available for these purposes.

WHO IS DEVELOPING THE OFFICE MARKET IN LIMA?

The big developers of the office market in Lima, especially the prime sector, are Inversiones Centenario, Grupo Brescia and Graña y Montero.

However, some new firms have entered this sector to develop Real Estate projects, such as Imagina, Inmobiliari, Rodrigo y Asociados, Ibher, RyC Constructores, Penta Realty and NR Investments, as well as INSERFINSA, which, it is true that it already had a significant portfolio, but has recently developed its first project completely by itself (Santo Toribio).

On the other hand, some economic groups, such as Cervesur, Grupo Wiese and Grupo Fierro (through COINSA) have entered the office market.

Finally, firms with their own requirements are currently developing their own venues, destining spaces to be leased or sold, such as Grupo Dyer, Coopertaiva Pacífico, Cooperativa Ábaco and América Leasing.

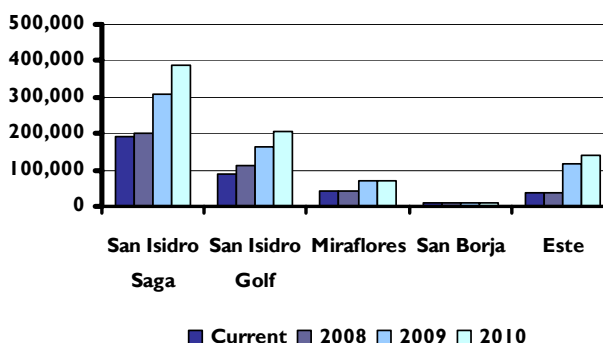
Summarizing, the office market has a wide variety of actors, all of them responsible for developing this sector in order and without affecting it, with the final goal of meeting international standards.

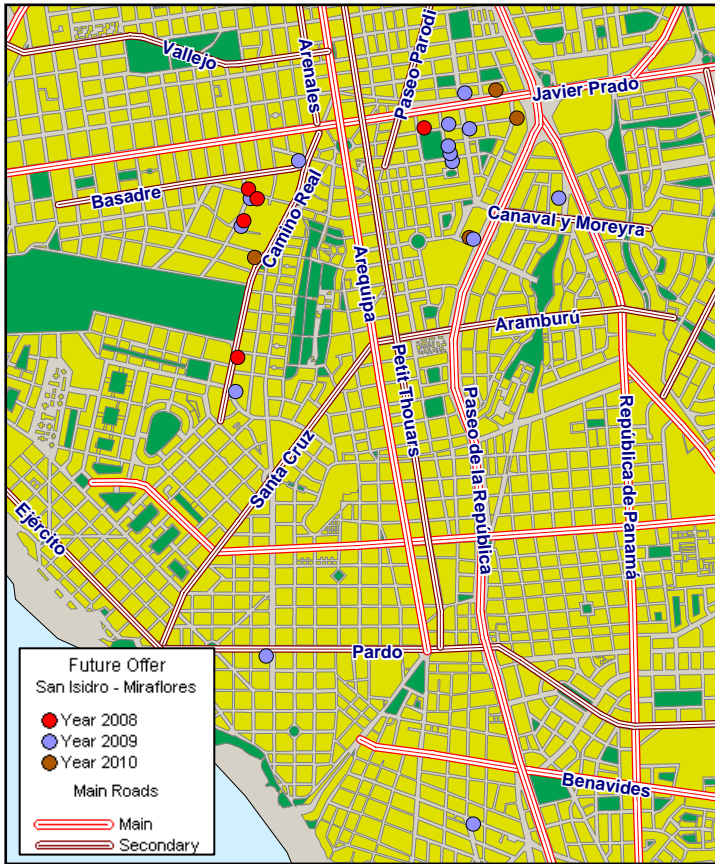
Asking Prices - Future Supply				
Building	Lease		Sale	
	Area (sqm)	Price (US\$)	Area (sqm)	Price (US\$)
A+ Class	81,044	15.7	25,740	1,350
Santo Toribio	514	18.0	---	---
Parque Plaza	585	17.5	281	1,350
Cronos - T1	7,130	15.5	---	---
Cronos - T2	5,537	15.5	---	---
Alto Caral	13,599	15.0	---	---
CE Miraflores II	13,648	14.8	---	---
Plaza República	25,459	15.5	25,459	1,350
Capital	14,571	17.5	---	---
A Class	5,646	15.5	9,979	1,328
V.A. Belaunde	---	---	105	1,600
Camino Real	5,646	15.5	---	---
Torre Pinar	---	---	9,874	1,325
Total	86,690	15.7	35,720	1,344

Note: You will have seen prices for rent and sale of spaces available in projects that are within the marketing stage.

Office Prime Market - Stock Evolution						
Area	EOY Stock (sqm)				Variation (08 - 10)	
	Current	2008	2009	2010	sqm	%
San Isidro Saga	190,736	202,622	308,800	388,468	197,733	104%
San Isidro Golf	88,090	114,486	165,686	205,686	117,596	133%
Miraflores	43,700	43,700	67,921	67,921	24,221	55%
San Borja	9,804	9,804	9,804	9,804	0	0%
Este	36,755	36,755	116,794	141,794	105,038	286%
Total	369,085	407,367	669,004	813,673	444,588	120%
Stock Variation (Annual)	sqm	38,282	261,637	144,669		
	%	10%	64%	22%		

Prime Office Stock Evolution per Area (2008 - 2010)





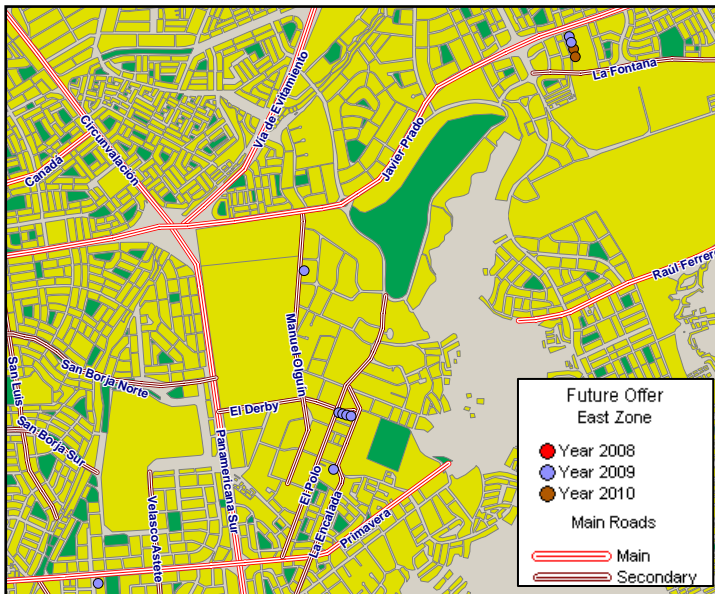
FUTURE OFFER

The offer that will enter the market between the years 2008 and 2010 sums approximately 444,588 m², represented by 35 buildings. 59% would be delivered in 2009, where the area with the highest offer will be San Isidro Saga with 197,733 m² (44%).

The net demand (net absorption) projected for the year 2008 is approximately 50,000 m², higher by 178% to the historic demand of 18,000 m² (average of the last 7 years), which would make it possible for the future offer (at that level) to fulfill the requirements of the next 9 years.

The projection of the demand (net absorption) should consider not only the spaces that might be positioned, but those that will become available too, for an important percentage of the occupants of the new projects will leave their current premises.

We are not considering within the future offer those projects that continue in their conceptualization stage, despite developers already own the spaces. The most important ones are: Interseguro (former Fiat), Jockey Plaza, Inmobiliari (El Derby / Olguín), Inversiones Centenario (Olguín), Jockey Club, etc.



Office Prime Market - Stock Evolution				
Area	Buildings Number			
	2008	2009	2010	Total
San Isidro Saga	1	9	3	13
San Isidro Golf	4	4	2	10
Miraflores	0	2	0	2
San Borja	0	0	0	0
Este	0	8	2	10
Total	5	23	7	35



MiraCorp



Cronos



Camino Real



Capital



Alto Caral



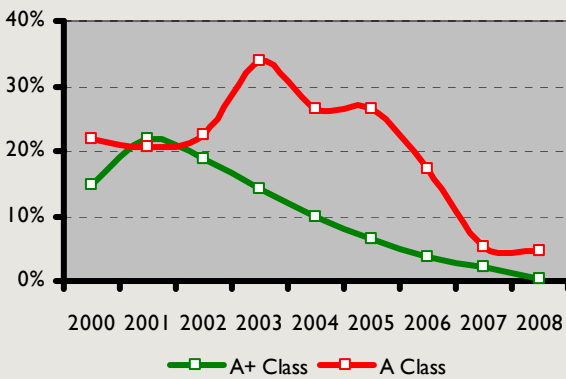
Plaza República



Torre Pinar

Current Stock - Prime Office Market				
Area	Stock (sqm)		Vacancy (sqm)	
	A+	A	A+	A
San Isidro Saga	100,487	90,249	663	7,257
San Isidro Golf	32,255	55,835	0	0
Miraflores	16,597	27,103	0	806
San Borja	9,804	0	0	0
La Molina	36,755	0	0	0
Subtotal	195,897	173,188	663	8,063
Total	369,085		8,726	
Vacancy rate per class			0.34%	4.66%
Overall vacancy rate			2.36%	

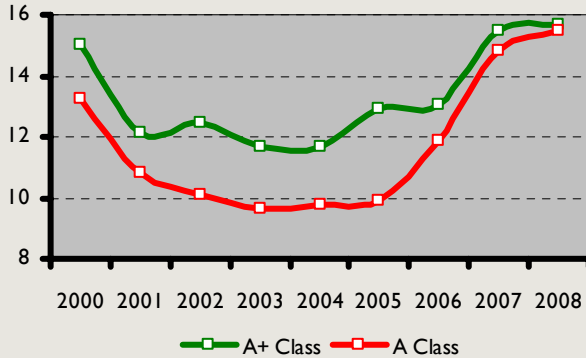
Vacancy Rate - A+ & A Classes



2000 2001 2002 2003 2004 2005 2006 2007 2008

— A+ Class — A Class

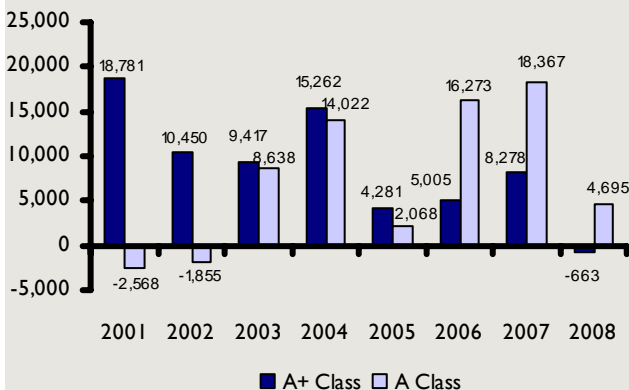
Lease Prices (Asking) - A+ & A Classes



2000 2001 2002 2003 2004 2005 2006 2007 2008

— A+ Class — A Class

Net Absorption per Class



2001 2002 2003 2004 2005 2006 2007 2008

■ A+ Class □ A Class

OFFER

The supply of the prime office market only increased in 3,977 m² during the first trimester of 2008, when the 28 de Julio building, in Miraflores, was incorporated.

The current vacancy rate is 2.36% and should decrease despite the incorporation of 3 new, but totally occupied, buildings into the market: Santo Toribio and San José (San Isidro Golf) and Parque Plaza (San Isidro Saga).

DEMAND

The net absorption during the first trimester of the year 2008 was 4,032 m² and is basically represented by the 28 de Julio building. Besides this venue, the gross absorption of the prime office market in Lima is mostly represented by the growth of firms that already occupied spaces in buildings going through desorption. However, the net absorption is insignificant, for the spaces being occupied are those that used to be available, and, therefore, the vacancy rate does not decrease.

PRICES

Currently, the prices of the prime office market in Lima have a very high dispersion, for they reflect different stages in every building.

In the case of the buildings that are about to be delivered, there have been transactions of up to US\$17.5 / m², basically for being the last spaces available, that is, speculative. Firms that require a space within the next three months are willing to pay such prices, generally for small areas (less than 500 m²).

The existing buildings with available spaces have increased their prices with completely disperse values. For example, in Torre Siglo XXI, there have been transactions for US\$ 16 / m², in Targa they have reached US\$ 18 / m². These values are higher than the asking prices of Torre Mayor and Torre Menor (former Banco Mundo), which means that spaces to expand within the same building are highly appreciated, for that implies not having to move and not having to assume the related expenses.

The projects that will be delivered during the next twelve months are in a different situation. The average leasing price ascends to US\$ 15 / m². As the level of occupation of these buildings increase, the leasing prices will rise until the spaces start competing with the massive offer of the second trimester of 2009 and 2010.

The fixation of prices is critical for the commercial success of a building. The developer must understand that there are stages in the commercialization of a project. Despite this, the new projects would be favored since the lower limit has notoriously risen in relation to the buildings that will be delivered during 2008.

FORECAST

The following months should organize the actual composition of the new offer towards the years 2009 and 2010. Some of the spaces acquired for the development of office buildings will remain unbuilt and new projects will be incorporated to the market.

On the other hand, the leasing and sell prices will continue to rise in projects that might be considered as “below market level”; that is, buildings with prices below US\$ 15 / m². The limit is hard to define, but as the buildings that will be delivered during the second semester of 2009 begin their collocation stage, the excessive offer shall adjust the prices.

The demand, which has decreased its speed during the last months, should rise as the buildings that will be delivered in 2009 become “safe” projects. Those that are currently being built, such as Cronos, Alto Caral, Camino Real and Capital, should have the advantage of attracting tenants for being within the construction period.

The existing buildings with vacant spaces should finish their collocation within the following months, for there will be no more spaces available until January 2009, considering that the only building with vacant spaces that will be placed in the market during 2008 is Camino Real, a project of PUCP, which has recently started being commercialized through Colliers International Perú.

Apparently, the regulations that affect the development of office buildings in San Isidro would be modified within the following days, slightly reducing the demands for parking spaces, a situation that has been limiting the construction capacity of spaces during the these last months.

267 OFFICES IN 57 COUNTRIES
ON 6 CONTINENTS

USA 95
Canada 17
Latin America 17
Asia Pacific 53
EMEA 85

\$ 63.5 billion in annual transaction volume
672.9 million square feet under management
10,171 Professionals

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Prime Office Market - Lima								
IT - 2008								
Area	Class	N°	Stock (m ²)	Vacancy		Net Absorption (m ²)	Gross Absorption (m ²)	Lease Price (US\$ / m ²)
				m ²	Rate			
San Isidro Saga	A+	8	100,487	663	0.7%	-663	922	16.0
	A	12	90,249	7,257	8.0%	718	718	15.0
		20	190,736	7,920	4.2%	55	1,639	15.0
San Isidro Golf	A+	6	32,255	0	0.0%	0	0	0.0
	A	9	55,835	0	0.0%	0	0	0.0
		15	88,090	0	0.0%	0	0	0.0
Miraflores	A+	1	16,597	0	0.0%	0	0	0.0
	A	6	27,103	806	3.0%	3,977	3,977	0.0
		7	43,700	806	1.8%	3,977	3,977	0.0
San Borja	A+	2	9,804	0	0.0%	0	0	0.0
	A	2	9,804	0	0.0%	0	0	0.0
La Molina	A+	3	36,755	0	0.0%	0	0	0.0
	A	3	36,755	0	0.0%	0	0	0.0
Total / Average	A+	20	195,897	663	0.3%	-663	922	15.7
	A	27	173,188	8,063	4.7%	4,695	4,695	15.5
		47	369,085	8,726	2.4%	4,032	5,616	15.7

Note: the average leasing price is set by the projects being commercialized, due to the low implication of the values that correspond to the spaces available in the existing buildings.

