



Peru | Real Estate Outlook 2017

December 2017

Content

1. Evolution of the real estate market in 2017
2. Outlook for the real estate market
3. Office market



Main messages

1. Evolution of the real estate market in 2017

1.1 Sales

- ◆ Apartment sales in Lima were reactivated in the second half of the year, when the uncertainty dissipated over (i) the outcome of the 2016 elections and (ii) the measures that the new Government would eventually implement in the real estate market. In addition, the economy began to show some signs of recovery from the third quarter onwards.
- ◆ In this context, we estimate that the apartment sales will be between 12,500 and 13,000 units in 2017, above those of last year, but will still far from the levels reached in the years of the real estate boom (2011-2012)
- ◆ The largest increase in the number of units sold in 2017 occurred in the medium price segment (S/ 144,000 - S/ 370,000) and in districts located in the northern zone of Lima, Jesús María, Callao, Chorrillos and Barranco
- ◆ With the increased pace of sales, the time needed to exhaust the apartments available for purchase was reduced to nine months. There are, however, some districts in which it would take more than a year to exhaust the available supply, such as in Surco (15 months), Pueblo Libre (15), Chorrillos (19), and La Molina (26)

1. Evolution of the real estate market in 2017

1.2 Supply

- ◆ The number of apartments available for purchase in the city of Lima increased moderately (4%) and stood at 25,000 units.
- ◆ The increase in the number of homes offered in the market was mainly in the medium and medium high price segment (S/ 240,000 - S/ 600,000) and in the districts of Barranco, Callao and Lince.
- ◆ Supply Characteristics: the buildings are getting taller, the apartments are getting smaller and, along the same lines, tend to have fewer bedrooms.

1.3 Interest in purchase

- ◆ There are 195,000 households interested in buying an apartment in Lima, an interest that is mainly concentrated in the medium-low price segment (between S/ 150,000 - S/ 240,000)

1. Evolution of the real estate market in 2017

1.4 Market price

- ◆ The prices of apartments rose moderately in 2017 (measured in nominal dollars) and in a generalised manner, with the exception of San Borja

1.5 Financing

- ◆ In a context of rising sales of apartments and its prices, mortgage loans increased slightly in 2017. Late payments continued to rise and dollarisation continued to decline
- ◆ Households that access to mortgage loans tend to have a high level of income and a head of household with higher education

2. Outlook for the real estate market

- ◆ Considering the Apartment Purchase Intention Indicator of BBVA Research (IICDG), built from Internet search information, the number of apartments sold would moderate in 2018 (it would reach a level close to 11,000 units in that year). The additional political noise may have some downward effect on this estimate.

3. Prime office space market (A and A+)

- ◆ The level of inventories continued to increase in 2017. The rate at which it advances continues to be greater than the one of net absorption (demand). Therefore, the vacancy rate continues to increase, placing downward pressure on prices.

1. Evolution of the real estate market in 2017



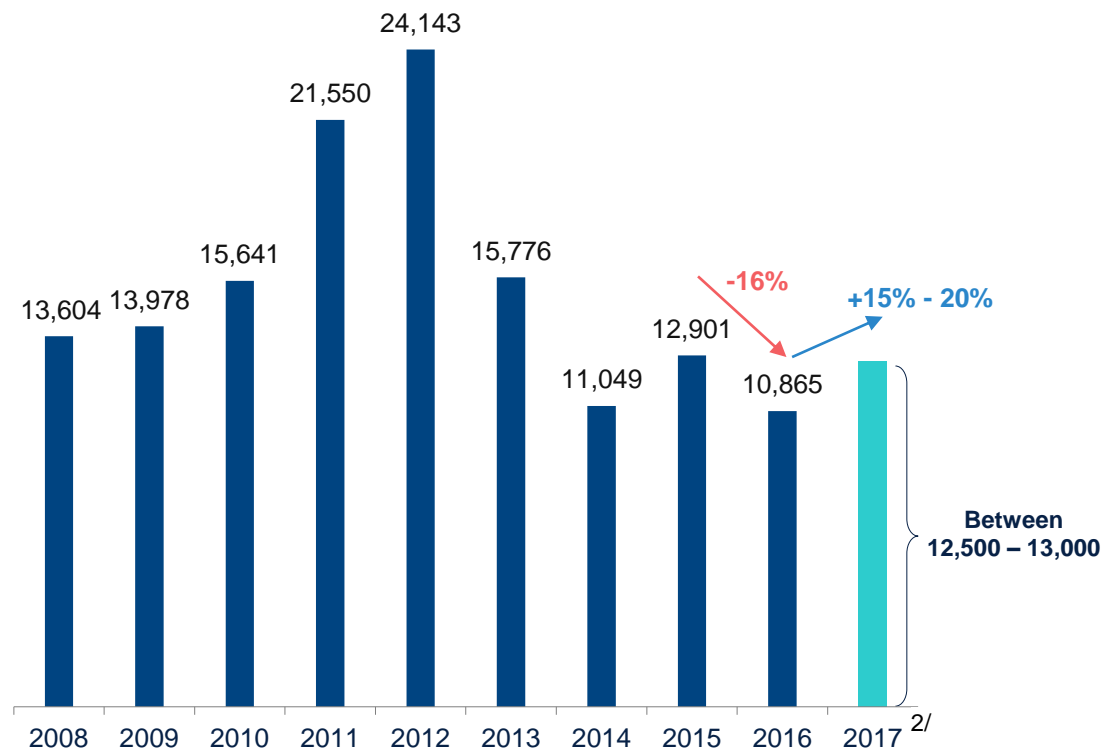
Evolution of the real estate market in 2017



Sales

In 2017, apartment sales performed positively

Lima. Apartment Sales⁽¹⁾ (in units)



◆ Apartment sales were reactivated in the second half of the year, when...

- ...uncertainty dissipated over (i) the outcome of the 2016 elections and (ii) the measures that the new Government could possibly implement in the real estate market
- ...the economy began to show some signs of recovery from the third quarter onwards

◆ In this context, we estimate that apartment sales will be between 12,500 and 13,000 units in 2017, above last year's figure, but still far removed from the levels reached in the years of the real estate boom (2011-2012)

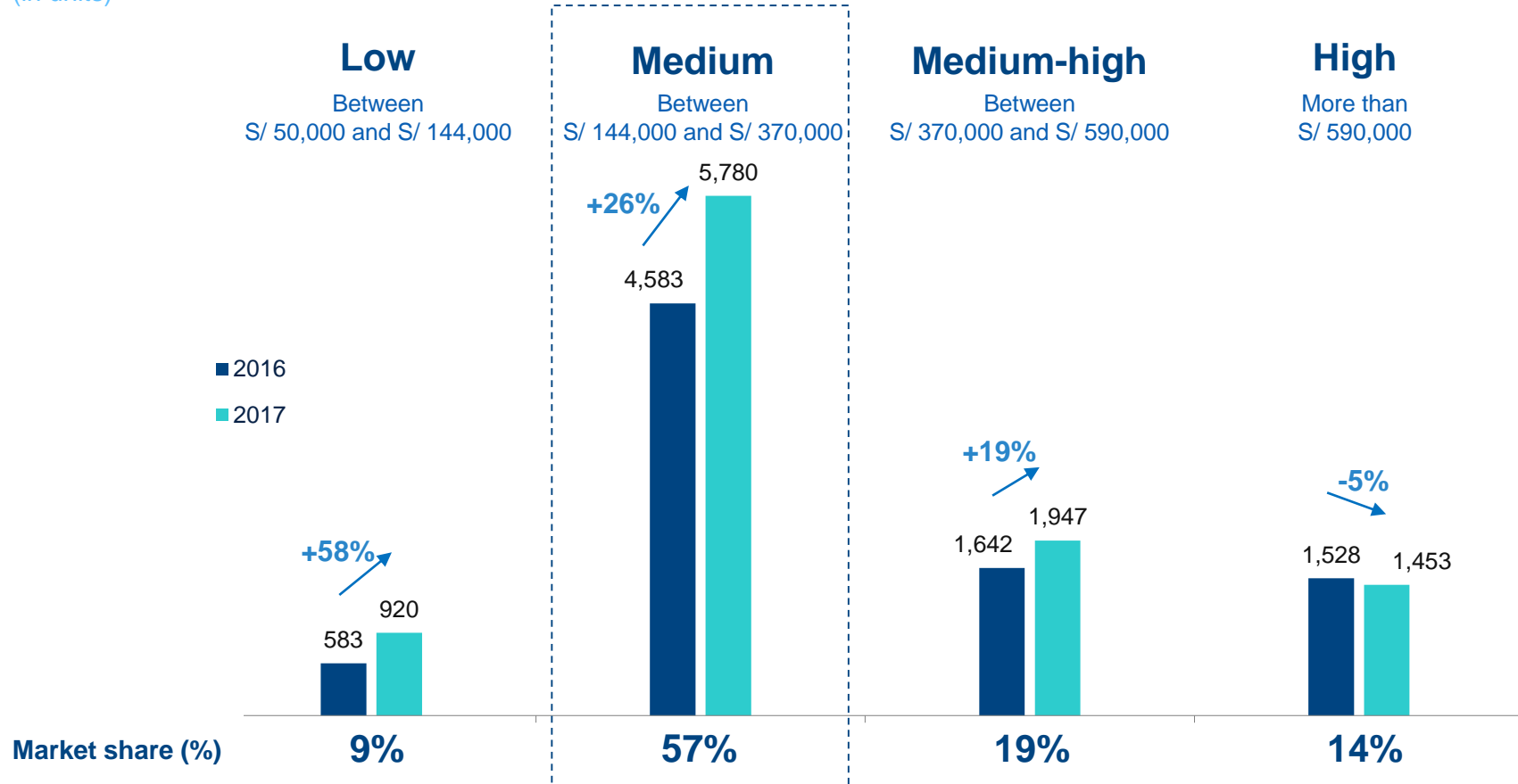
(1) Comprises 26 districts.

(2) Projection (with information available as of 3Q17).

Source: TINSA (real estate appraisals) and BBVA Research

The largest increase in the number of units sold was in the mid-price segment...

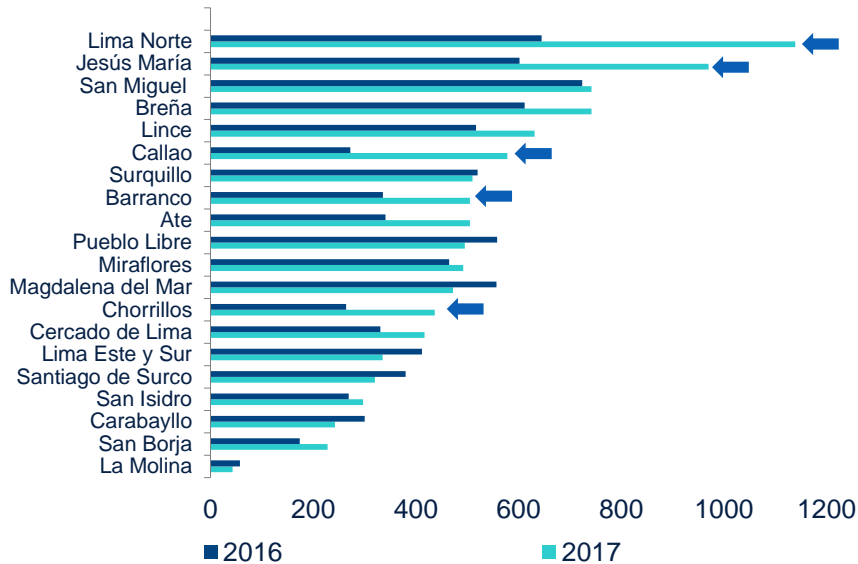
Lima. Apartment sales by price (1) (in units)



(1) Comprises 26 districts. With information as of 3Q17.
Source: TINSA (real estate appraisals) and BBVA Research

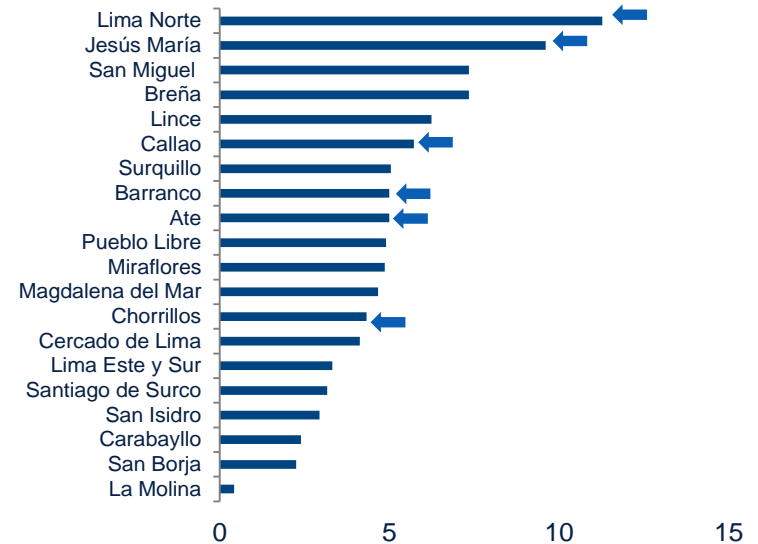
...and in districts of the northern zone of Lima, in Jesús María, Callao, Chorrillos and Barranco

Lima. Apartment sales by district (1)
(units)



(1) Comprises 26 districts. With information accumulated up to the third quarter (both for 2016 and 2017).
 Lima Norte: Comprises the districts of Comas, Los Olivos, Puente Piedra and Rímac.
 Lima Este & Sur: Chaclacayo, Villa El Salvador, San Juan de Lurigancho and el Agustino.
 Source: TINSA (real estate appraisals) and BBVA Research

Lima. Apartment sales by district 2017 (1)
(share of total sales of 2017, %)

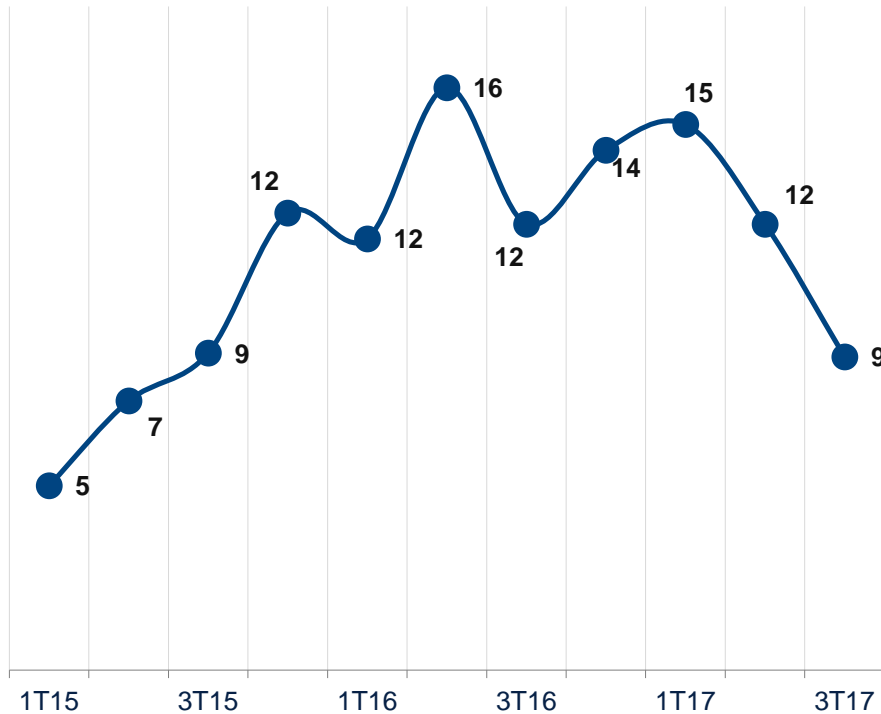


(1) Comprises 26 districts. With information accumulated to the third quarter of 2017.
 Lima Norte: Comprises the districts of Comas, Los Olivos, Puente Piedra and Rímac.
 Lima Este & Sur: Chaclacayo, Villa El Salvador, San Juan de Lurigancho and el Agustino.
 Source: TINSA (real estate appraisals) and BBVA Research

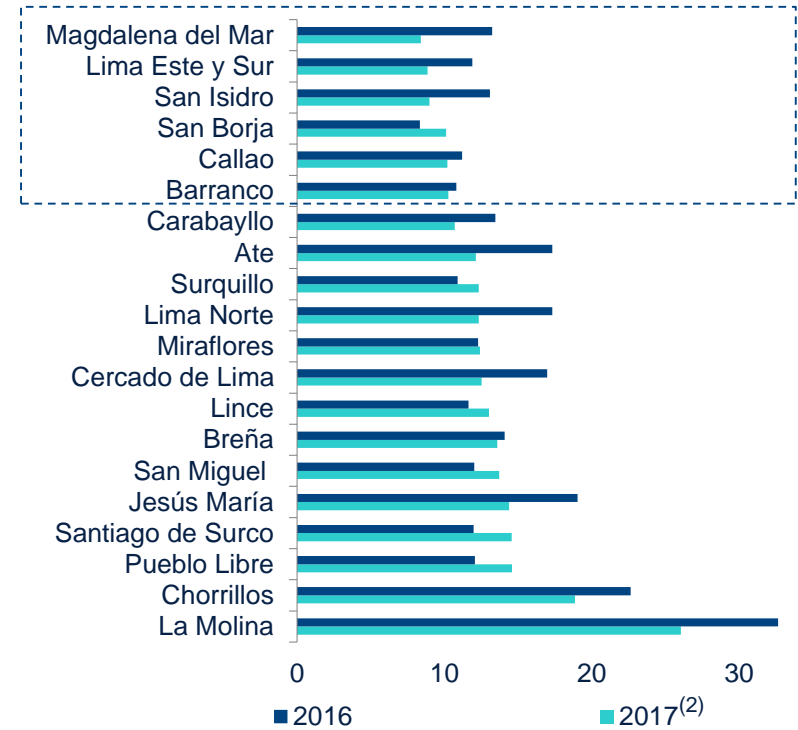
They account for about 40% of the total units sold in 2017

With the increase in the pace of sales, the time needed to exhaust the apartments available for purchase decreases

Lima. Months to exhaust the available supply (1)
(number)



Lima. Months to exhaust the available supply by district (1)
(number)



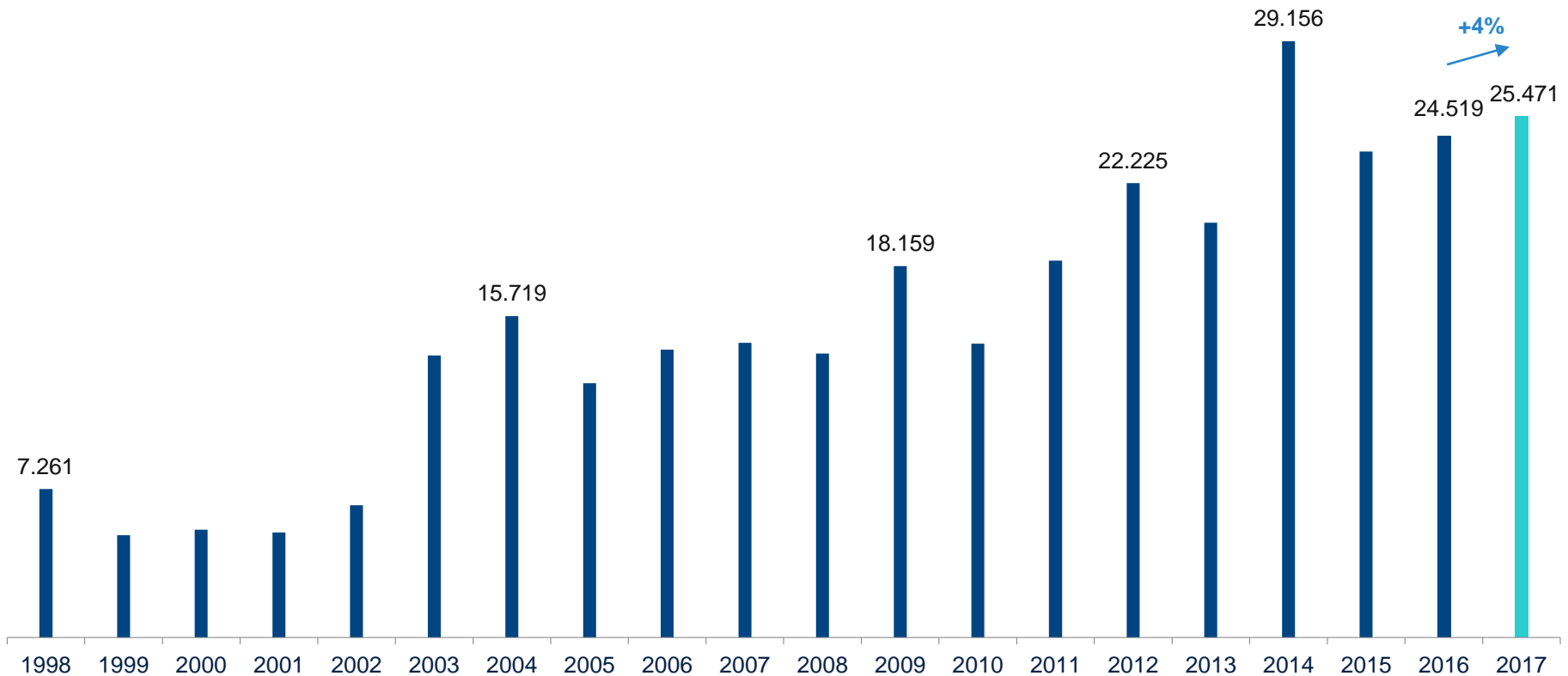
(1) Comprises 26 districts.
Source: TINSA (real estate appraisals) and BBVA Research

(1) Comprises 26 districts.
(2) Information available as of 3Q17.
Source: TINSA (real estate appraisals) and BBVA Research

Supply

The number of apartments available for sale increased moderately in 2017

Lima. Supply of apartments (1) (in units)

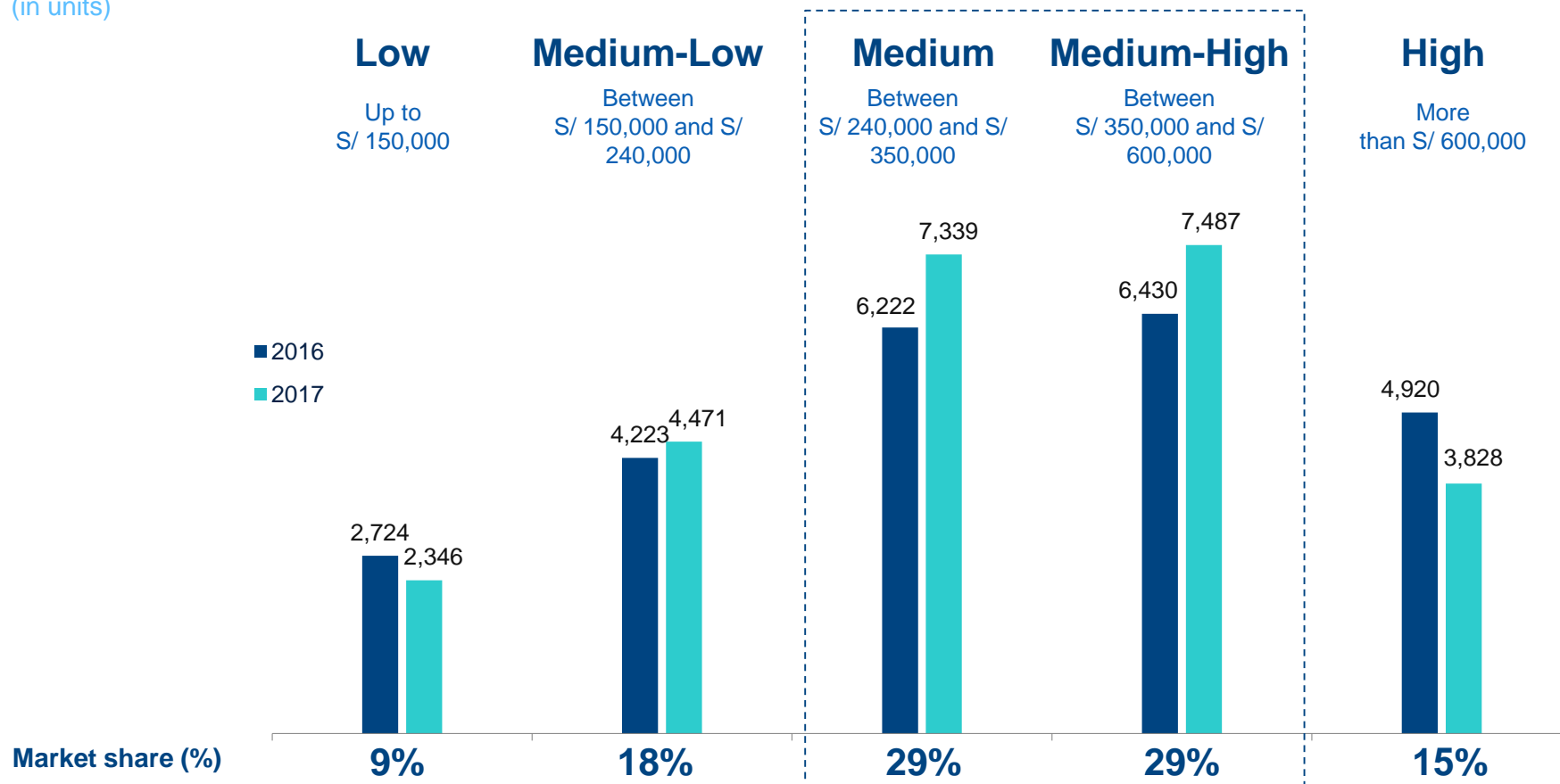


(1) Comprises a total of 49 districts, 43 of them in Lima and 6 in Callao. 99% relate to the supply of apartments; the remainder are houses and plots. The information for each year covers data from August of the previous year until July of the current year. The supply includes the stock at the end of the previous year, the entry of new apartments in the current year, and the sales are subtracted.

Source: CAPECO and BBVA Research

The increase in the number of homes offered in the market was mainly in the medium and medium-high price segment...

Lima. Supply of apartments by price (1)
(in units)



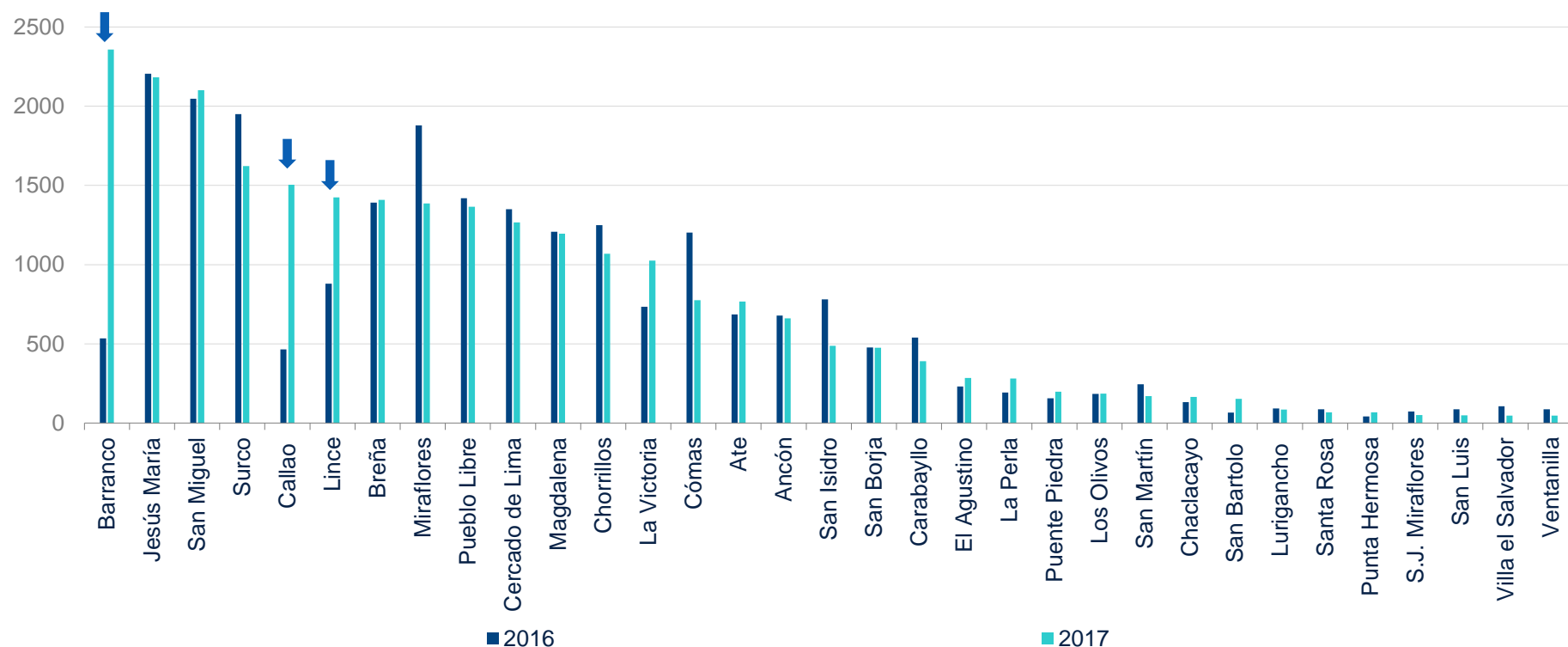
(1) Comprises a total of 49 districts, 43 of them in Lima and 6 in Callao. 99% relate to the supply of apartments; the remainder are houses and plots. The information for each year covers data from August of the previous year until July of the current year. The supply includes the stock at the end of the previous year, the entry of new apartments in the current year, and the sales are subtracted.

Source: CAPECO and BBVA Research

... and in the districts of Barranco, Callao and Lince

Lima. Supply of housing by district (1)

(in units)

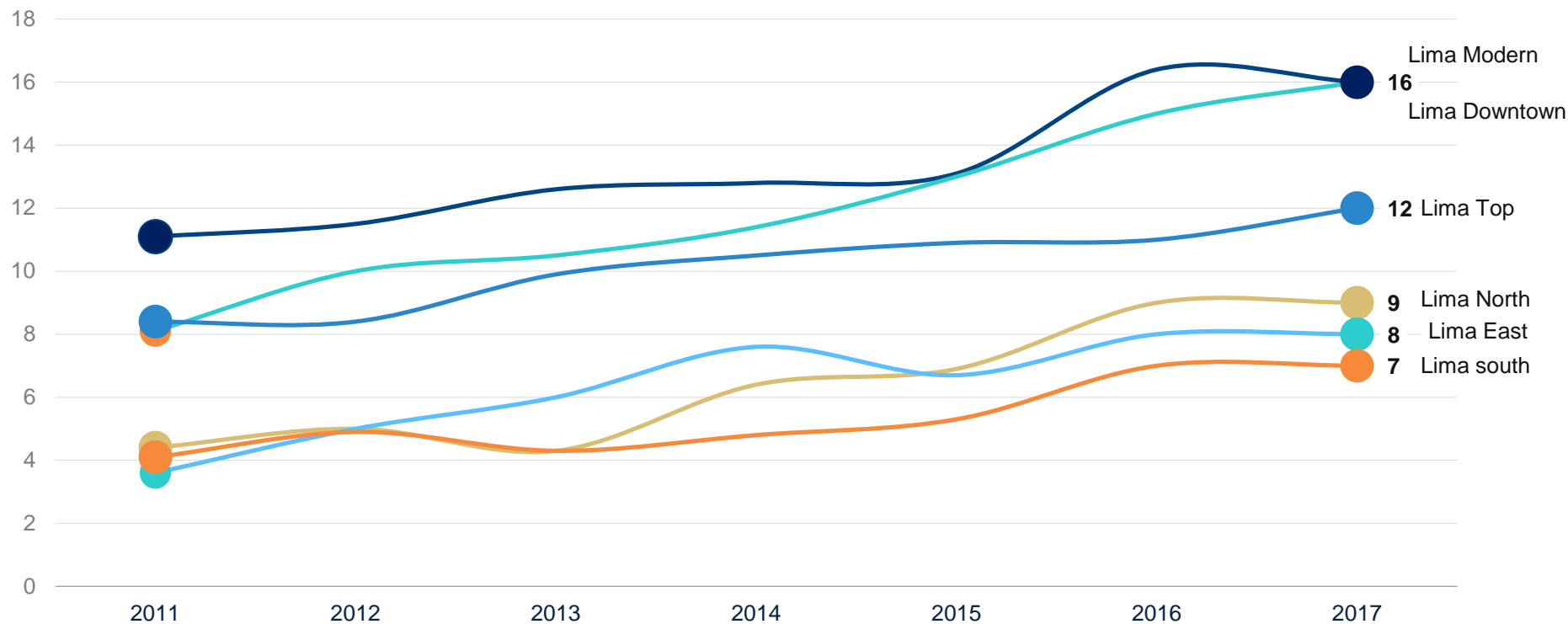


(1) Comprises a total of 49 districts, 43 of them in Lima and 6 in Callao. 99% relate to the supply of apartments; the remainder are houses and plots. The information for each year covers data from August of the previous year until July of the current year. The supply includes the stock at the end of the previous year, the entry of new apartments in the current year, and the sales are subtracted.

Source: CAPECO and BBVA Research

Characteristics of the supply? The buildings are getting taller...

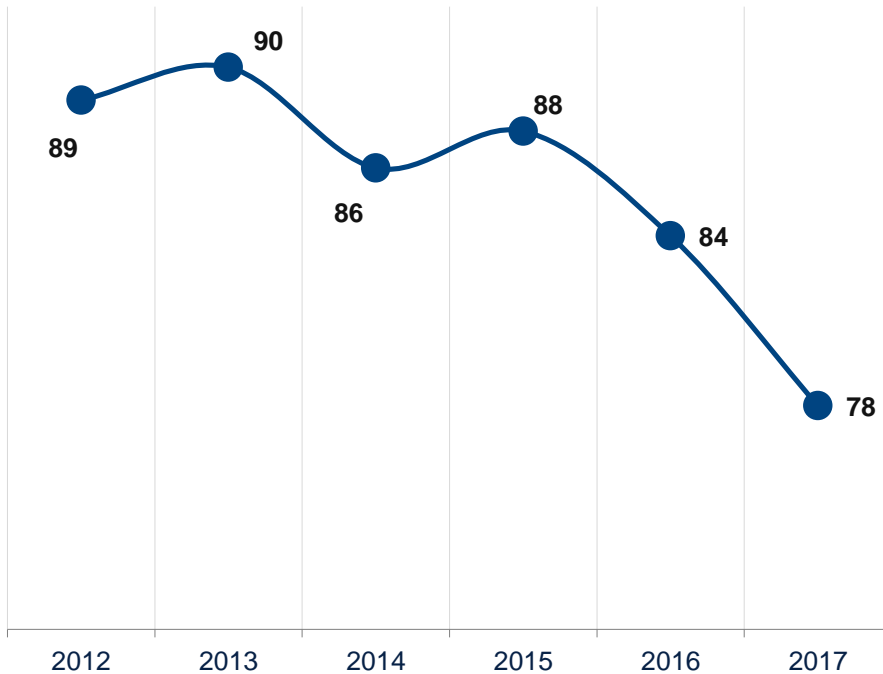
Lima. Number of floors that the buildings under construction will have (1)
(average)



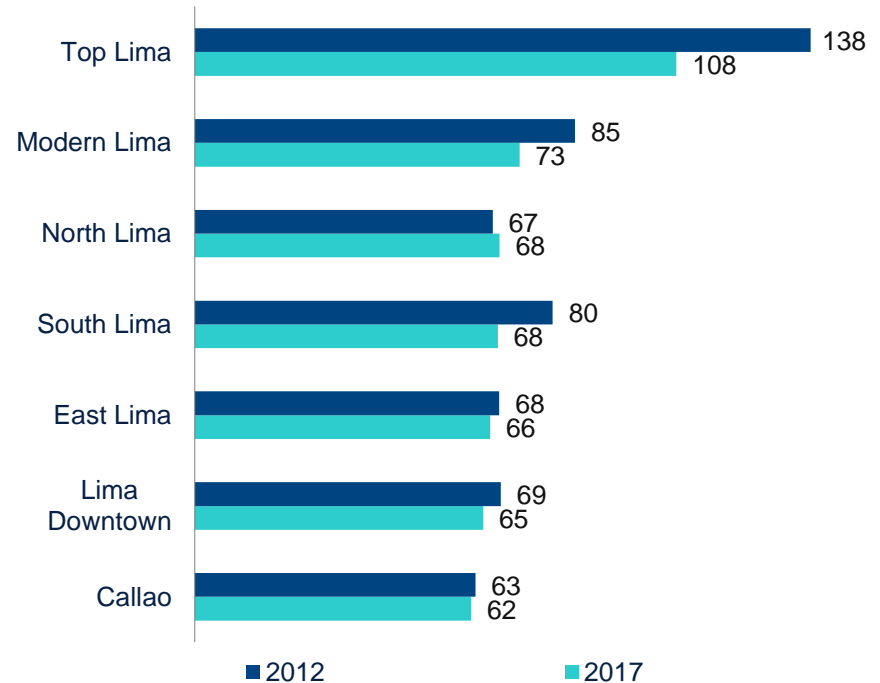
(1) **Lima Top:** Miraflores, San Isidro, La Molina, Santiago de Surco, San Borja, and Barranco. Lima Moderna: Jesús María, Lince, Magdalena del Mar, Pueblo Libre, San Miguel and Surquillo. Lima Sur: Chorrillos, Lurín, Pachacamac, San Juan de Miraflores, Villa El Salvador, Villa María del Triunfo, Pucusana, Punta Hermosa, Punta Negra, San Bartolo, Santa María del Mar. Lima Este: Ate, Cieneguilla, Chaclacayo, S. J. Lurigancho, Santa Anita, El Agustino. Lima Norte: Carabayllo. Comas, Independencia. Los Olivos, Puente Piedra, San Martín de Porres, Ancón, Santa Rosa. Lima Centro: Cercado de Lima, Breña, La Victoria, Rímac and San Luis.
Source: CAPECO and BBVA Research

...the apartments are getting smaller, especially in the “Top Lima” segment...

Lima. Average surface area of apartments available for sale (1)
(in square metres)



Lima. Average surface area of apartments available for sale by zone (2)
(in square metres)



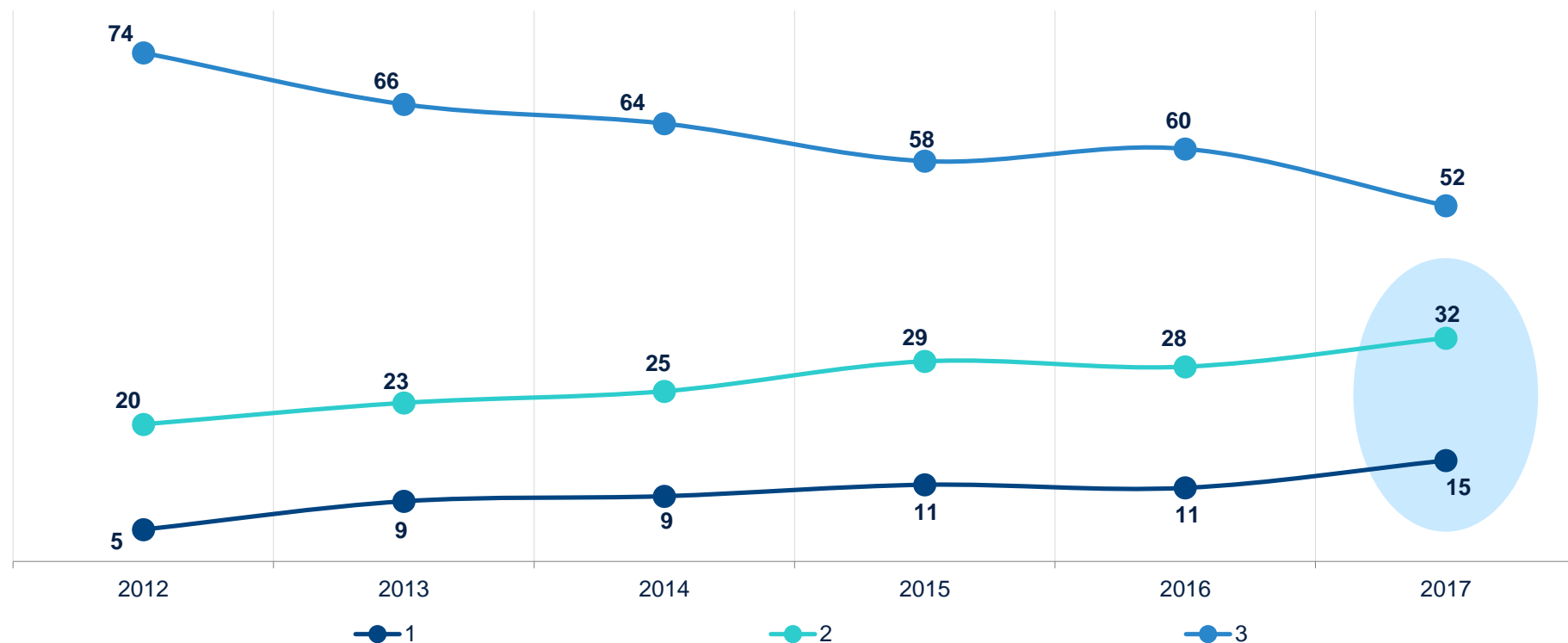
(1) Comprises a total of 49 districts, 43 of them in Lima and 6 in Callao. 99% relate to the supply of apartments; the remainder are houses and plots. The information for each year covers data from August of the previous year until July of the current year. The supply includes the stock at the end of the previous year, the entry of new apartments in the current year, and the sales are subtracted.

(2) **Lima Top:** Miraflores, San Isidro, La Molina, Santiago de Surco, San Borja, and Barranco. **Lima Moderna:** Jesús María, Lince, Magdalena del Mar, Pueblo Libre, San Miguel and Surquillo. **Lima Sur:** Chorrillos, Lurín, Pachacamac, San Juan de Miraflores, Villa El Salvador, Villa María del Triunfo, Pucusana, Punta Hermosa, Punta Negra, San Bartolo, Santa María del Mar. **Lima Este:** Ate, Cieneguilla, Chaclacayo, S. J. Lurigancho, Santa Anita, El Agustino. **Lima Norte:** Carabaylo. Comas, Independencia. Los Olivos, Puente Piedra, San Martín de Porres, Ancón, Santa Rosa. **Lima Centro:** Cercado de Lima, Breña, La Victoria, Rímac and San Luis. Fuente: CAPECO y BBVA Research

...and, along the same lines, they tend to have fewer bedrooms

Lima. Apartments by number of bedrooms

(share of the total supply, %)

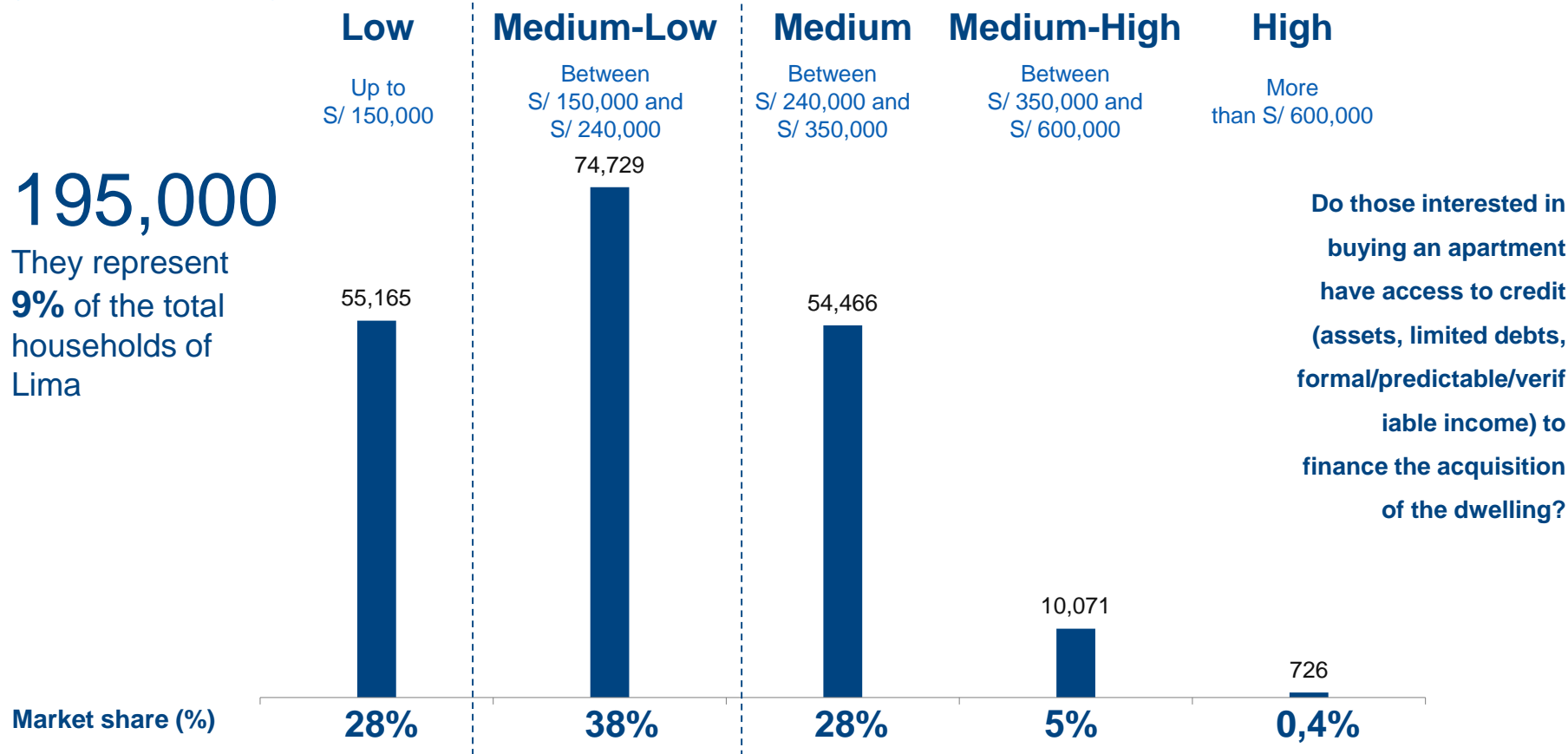


Interest in purchase

There are 195,000 households in Lima that wish to acquire an apartment, especially of low-medium price

Lima. Interest in purchase of an apartment by price, 2017 (1)

(number of households)



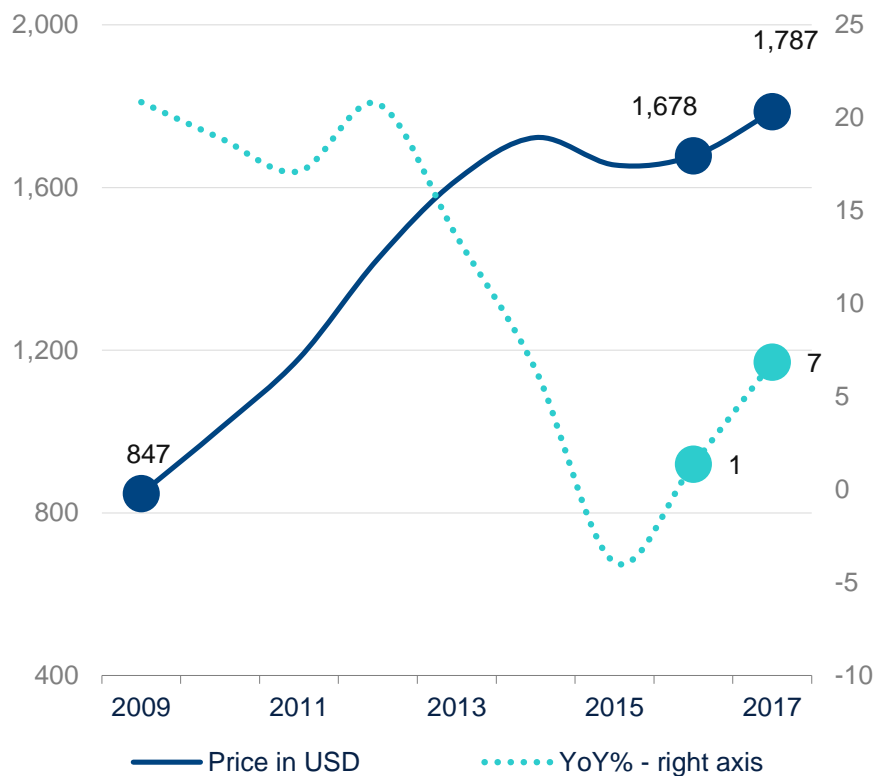
(1) According to CAPECO, effective demand is those households that wish to acquire an apartment and are financially capable of doing so. In this report we take this effective demand as interest in purchase of an apartment.

Source: CAPECO and BBVA Research

Prices

Apartment prices rose moderately in 2017 (measured in nominal dollars)

Lima. Apartment price (1)
(per square metre, in nominal USD)



(1) Comprises 10 districts: Jesús María, La Molina, Lince, Magdalena, Miraflores, Pueblo Libre, San Borja, San Isidro, San Miguel and Surco. Information available up to September. Source: Central bank

Lima. Apartment price by district (1)
(per square metre, in nominal USD)

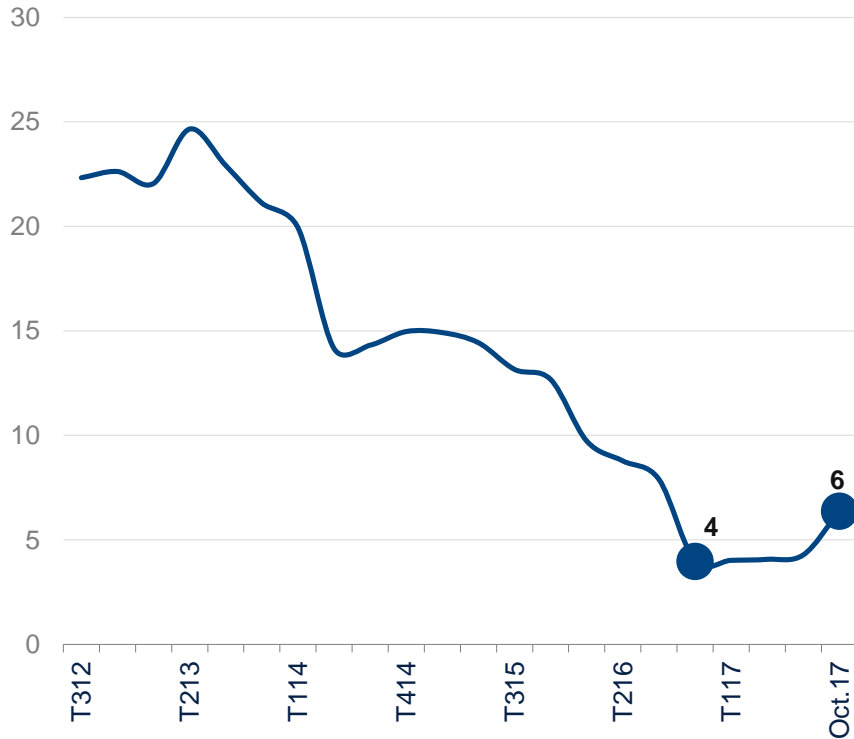
District	2016	2017	Chge. %
San Isidro	2,176	2,250	3.4
Miraflores	2,149	2,185	1.6
San Borja	1,853	1,842	-0.6
Surco	1,690	1,796	6.3
Jesús María	1,517	1,615	6.5
Lince	1,551	1,581	2.0
Magdalena	1,504	1,534	2.0
Pueblo Libre	1,412	1,475	4.4
La Molina	1,402	1,450	3.5
San Miguel	1,215	1,266	4.2

(1) Cumulative average in the year to September (both for 2016 and for 2017). These districts concentrate nearly 50% of the total supply. Source: Central bank

Financing

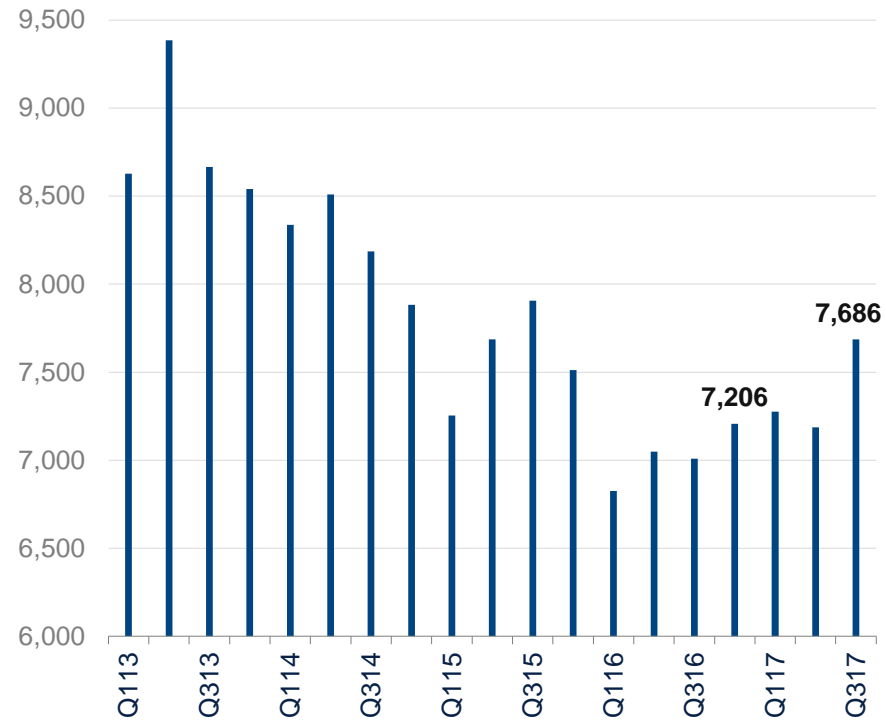
In a context of higher apartment sales and prices, mortgage loans increased slightly in 2017

Mortgage loans granted by banks
(chg. % year-on-year)



Source: ASBANC

New mortgage loans granted by banks
(units)

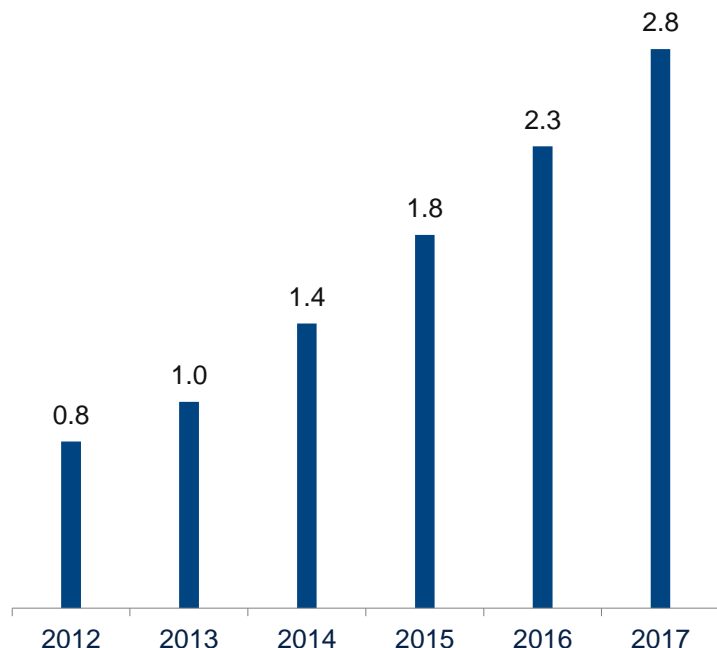


Source: ASBANC

Late payments continued to rise in 2017, in both currencies, while dollarisation continues to decline

Late payment of mortgage loans granted by banks

(portfolio in arrears as % of loans)



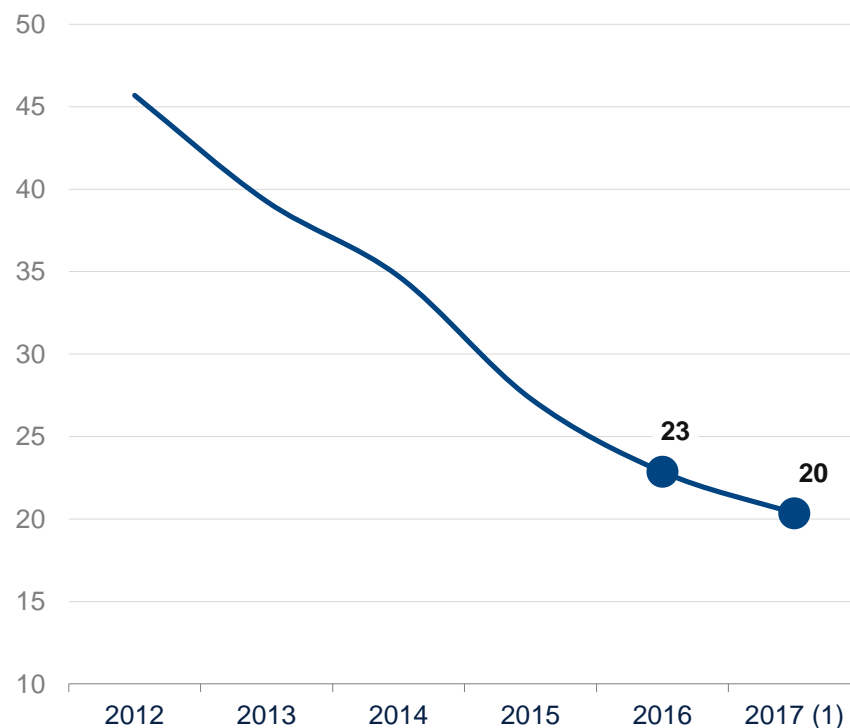
Currency

National	0.8	1.0	1.3	1.5	1.9	2.4
Foreign	0.8	1.1	1.6	2.9	3.6	4.1

(1) Figure for October
Source: ASBANC

Dollarisation of mortgage loans granted by banks

(receivables in dollars as % of total receivables)



(1) Figure for October
Source: ASBANC

¿Cuáles son las principales características de los hogares que tienen un crédito hipotecario? Son hogares de altos ingresos y...

62%

4th and 5th quintiles
of income
(the highest) ⁽²⁾

40%

have higher
education ⁽¹⁾
(16% have that educational
level in Peru) ⁽²⁾

27%

have a car or
truck in their
household
(11% is the national
average)

52%

are 41 to 55
years old ⁽¹⁾
(36% are in that
range in Peru)

31%

work in a large
company and **30%**
are independent ⁽¹⁾
(the national average is 10%
and 50%, respectively)

(1) Statistics based on Heads of Household (HH). Households which state that the HH or another member has obtained a loan to buy a house or apartment are considered (23,000 households responded affirmatively out of a total of 8.6 million households in Peru).

(2) The 4th and 5th quintiles of income are the highest. On average, Q5 has a monthly income (per household member) of 6,500 soles; Q4 of 2,900 soles. In addition, about 70% of the households that responded that they did have a mortgage loan have a monthly income (per household member) of more than 2,000 soles.

2. Outlook for the real estate market



Apartment Purchase Intent Index for **the city of Lima** with information from Google Trends

Interest in purchase of an apartment



Search on the internet
(real estate, price, bank, etc.)



Mortgage loan
(credit assessment and savings of the initial instalment)



Purchase / Sale



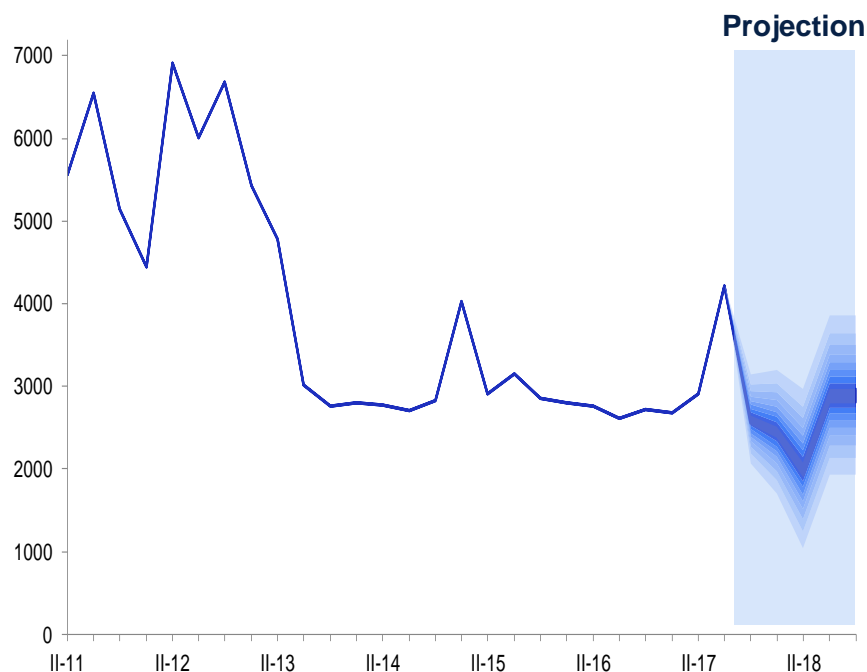
Apartment Purchase Intent Index (IICDG)⁽¹⁾

Our estimates find that there is a **positive correlation between the IICDG and sales**.
In addition, the IICDG **anticipates the completion of sales in three quarters**

(1) For further details on this methodology, download document [here](#).
Source: BBVA Research

According to the IICDG its correlation with the apartment sales, the latter will moderate in 2018

Lima. Apartment Sales (number of units)



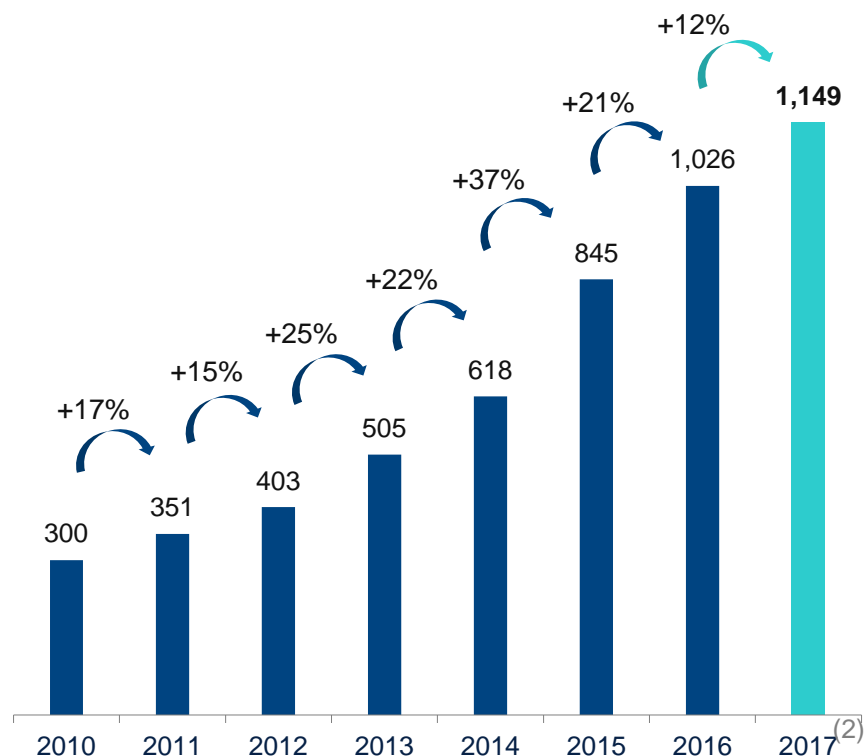
- ◆ The IICDG started to moderate slightly in the second half of 2017
- ◆ The IICDG correlates positively with the apartment sales and anticipates them in three quarters
- ◆ Considering the evolution of the IICDG, the number of apartments sold would moderate in 2018 (it would reach a level of close to 11,000 units in that year)
- ◆ Additional political noise could have a similar impact
- ◆ The Government has been discussing some measures to encourage sales of low-income housing. What is the impact of these measures? Evaluation will depend on how and when (For more details see Annex 2)

3. Prime office market



The level of inventories continued to increase in 2017

Lima. Inventory of prime offices (1)
(thousands of square metres)



(1) Number of square metres of offices completed and operational in the market. Prime market consists of A+ and A office buildings.

(2) With information as of 3Q17.

Source: Colliers

Lima. Inventory of prime offices by zone in 2017 (thousands of square metres)

Zone	No. of buildings	Thousands of m ²	Share (%)
Sanhattan (1)	28	417	36
Nuevo Este (2)	16	259	23
Miraflores	11	135	12
Magdalena	8	132	11
San Isidro Golf (3)	18	126	11
San Borja	5	61	5
Surquillo	1	19	2
Total	87	1,149	100

(1) Zone around Saga Falabella in Calle Las Begonias in San Isidro.

(2) Surco and La Molina.

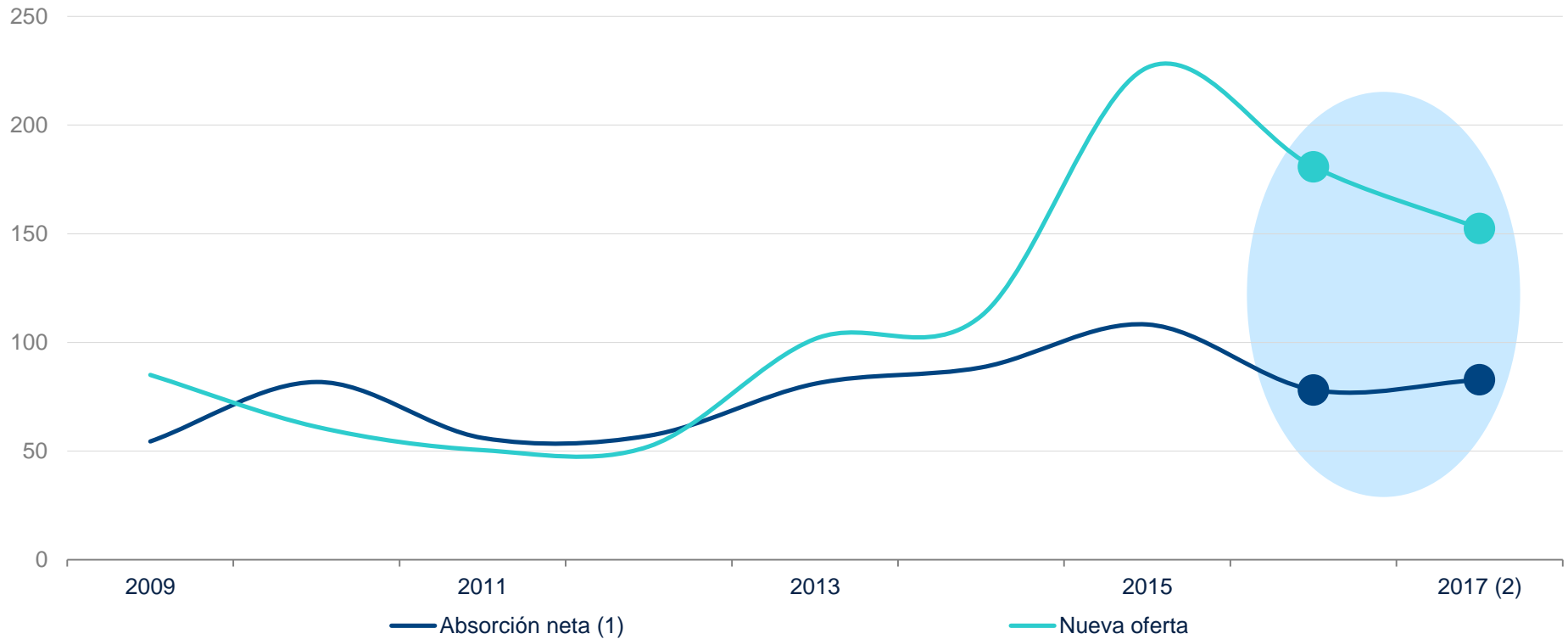
(3) Zone around Centro Empresarial Real in Avenida Jorge Basadre in San Isidro.

With information available as of 3Q17.

Source: Colliers

The rate at which this inventory increases is still higher than the one of net absorption

Lima. Net absorption ⁽¹⁾ and new supply of prime office space
(thousands of square metres)



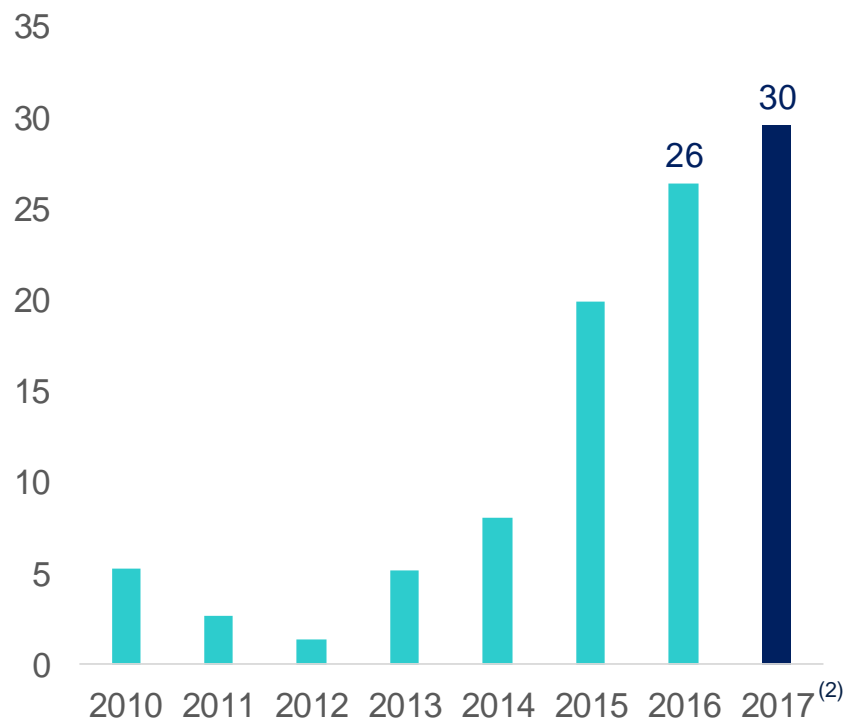
(1) Refers to the occupation and vacating of available buildings within the same period. Does not consider changes of location.

(2) Information as of 3Q17.

Source: Colliers

Therefore, the vacancy rate continued to rise in 2017

Lima. Prime office vacancy rate (1)
(%)

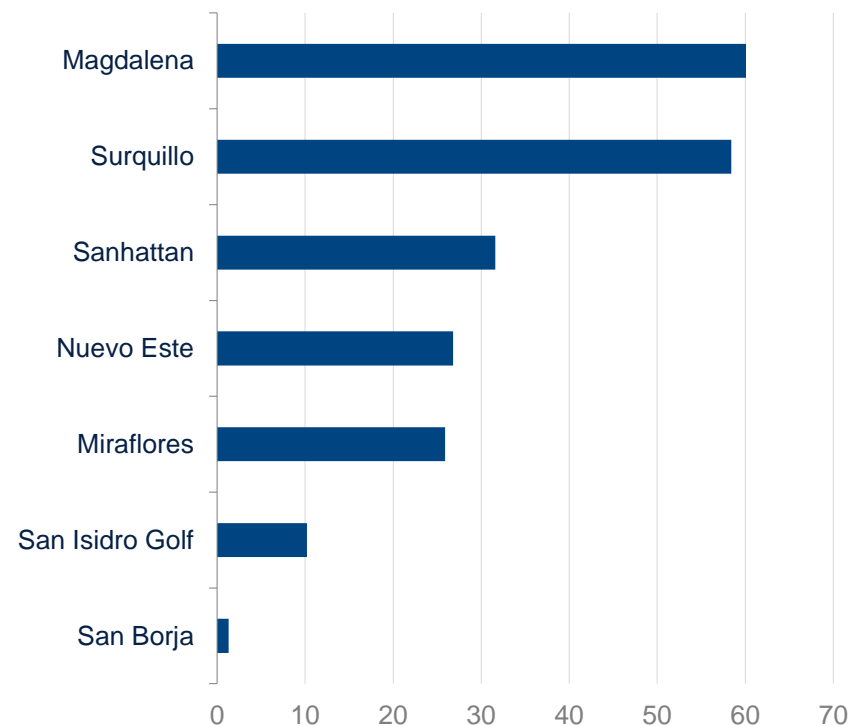


(1) The vacancy rate is the percentage of square metres of the inventory (or stock of offices) that are available to be sold or rented.

(2) Information as of 3Q17.

Source: Colliers

Lima. Inventory of prime offices by zone in 2017 (1)
(%)



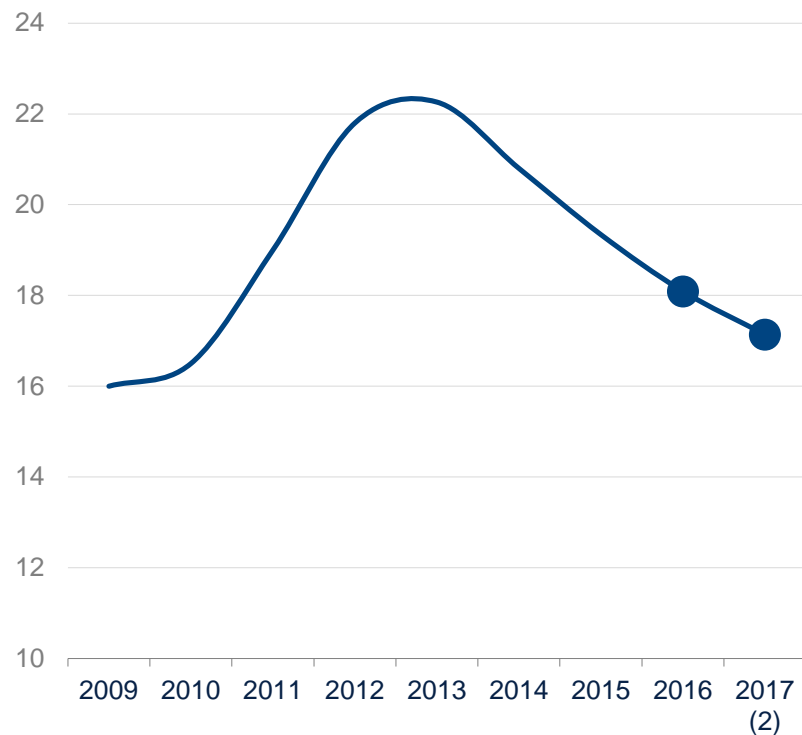
(1) The vacancy rate is the percentage of square metres of the inventory (or stock of offices) that are available to be sold or rented.

Information as of 3Q17.

Source: Colliers

...which places downward the pressure on prices

Lima. Average monthly rental of prime offices ⁽¹⁾
(USD/m²/month)



(1) It is also called the list price for rent. The prices refer to offices without furniture or installation. Rental prices do not include parking. Excluding taxes.

(2) With information available as of 3Q17.

Source: Colliers

Lima. Average monthly rental of the prime offices by zone in 2017
(USD/m²/month)

Zonas	A	A+	Total
San Isidro Golf ⁽¹⁾	21.00	20.86	20.86
Sanhattan ⁽²⁾	18.50	17.65	18.29
Miraflores	18.42	19.24	18.98
San Borja	17.00	17.00	17.00
Magdalena	-	15.21	15.21
Nuevo Este ⁽³⁾	15.29	15.02	15.24
Surquillo		14.47	14.47

(1) Zone around Centro Empresarial Real in Avenida Jorge Basadre in San Isidro.

(2) Zone around Saga Falabella of Calle Las Begonias in San Isidro.

(3) Nuevo Este: Surco and La Molina.

With information available as of 3Q17.

Source: Colliers

Appendix

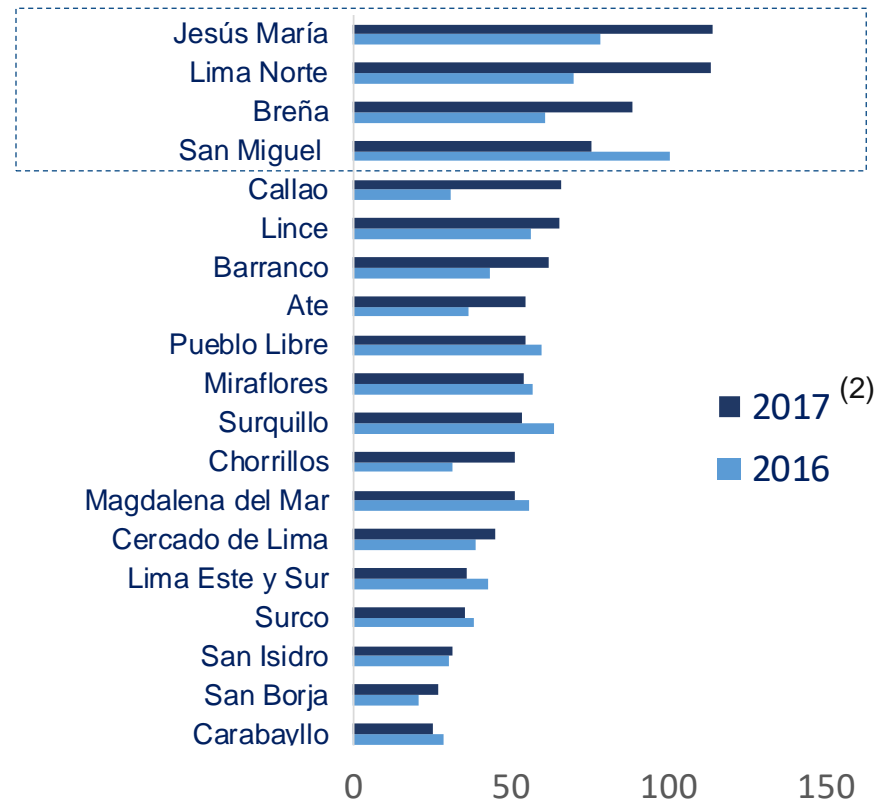


Anexx 1
The dwellings are being sold faster, something that was observed especially in the second half of the year

Lima. Speed of sales (1)
 (units sold per month)



Lima. Speed of sales by district (1)
 (units sold per month)



(1) Comprises 26 districts. With information as of 3Q17.
 Source: TINSAs (real estate appraisals) and BBVA Research

(1) Comprises 26 districts.
 (2) Information available as of 3Q17.
 Source: TINSAs (real estate appraisals) and BBVA Research

Anexx 2

National housing policy

Target: To develop 250,000 homes by 2021

Strategies

1

Urban and territorial planning

- National policy
- Regional and local programmes and plans

2

Generation of urban land

- Public land
- Private land
- Community-owned land

3

Financing of the dwelling and its surroundings

- Urban and rural housing programmes
- Private developers

Strategic actions 2018

Target: 81,329 homes will be developed for construction or improvement during 2018

- **34,560** BFH (Family Housing Subsidy) with financing in the 2018 budget
- **1,290** Rural households with financing in the 2018 budget
- **11,110** “Mi Vivienda” housing credits
- **34,450** Urban subsidies charged to transfers from the Authority for Reconstruction with Changes