BBVA Research

Peru

New home and prime office market in Lima Metropolitana

March 2019

Creando Oportunidades

Summary

- The recovery of new home sales in Lima continued to consolidate in 2018, most notably in the higher price segment. This took place against the backdrop of an improving formal labor market and financing conditions that remain attractive. With improved sales dynamism, housing prices increased.

- Demand for apartments in Lima exceeds available market supply. In this environment, supply responds by gradually adapting to the nature of the demand, such as with smaller apartments featuring fewer bedrooms. For its part, the Government is using green bonds to encourage the set-up of projects that incorporate environmental sustainability. A solution to some more structural problems—such as the difficulty of obtaining building permits, land scarcity, lack of access to drinking water and electricity (on the outskirts of Lima) and fragmented municipal regulations (the lack of an urban development plan for Lima)—would help to increase supply.

- We forecast that sales of new apartments in Lima will continue to grow in 2019, reaching between 16,500 and 17,000 units. This will help to improve the population's spending power (an increase in formal employment), helping more families to secure mortgage loans. Furthermore, interest rates will remain attractive and housing subsidies (such as green bonds) will continue to encourage the financing of apartments of certain types and prices.

Summary

- In the medium term, the demand for new homes will be supported by a growing middle class, working people having fewer dependents—favoring the sale of small apartments, where supply is already starting to develop—and the gradual adjustment of supply to changes in housing demand, such as the trend toward co-living.

- In the prime office market, supply continues to be absorbed amidst increased business activity and the emergence of new formats (such as co-working). As a result, vacancy rates have begun to fall but the market still has excess supply, which puts downward pressure on rents. This suggests that the new supply of prime offices will plateau over the next two years.
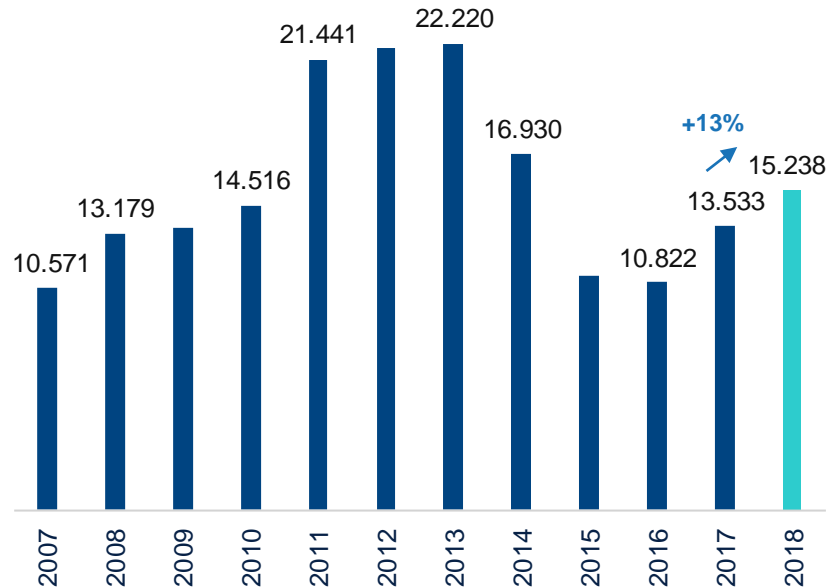
Content

01

**Progress of the new home market
in 2018**

The recovery of new home sales in Lima continued to consolidate in 2018, most notably in the higher price segment.

Sales of new apartments[1]
(in units)

10.571 · 13.179 · 14.516 · 21.441 · 22.220 · 16.930 · 10.822 · 13.533 · **+13%** · 15.238

2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

Increase in sales of new apartments in 2018 by price[1]
(in units)

-222 · 888 · 1.039

Up to S/ 400,000 | Between S/ 400,000 and S/ 600,000 | More than S/ 600,000

**Low/Medium-low** | **Medium-high** | **High**

(1) Comprises the 49 districts of Lima and Callao. New apartments made up 98% of sales, with the remainder new houses. The information for each year covers data from August of the previous year to July of the current year.
Source: CAPECO (Peruvian chamber of construction) and BBVA Research

This took place against the backdrop of an improving formal labor market and financing conditions that remain attractive.
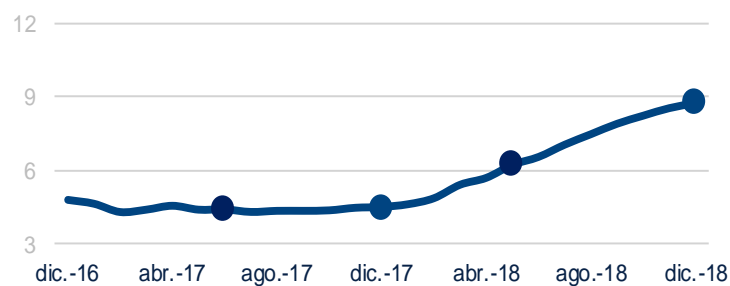
Formal jobs
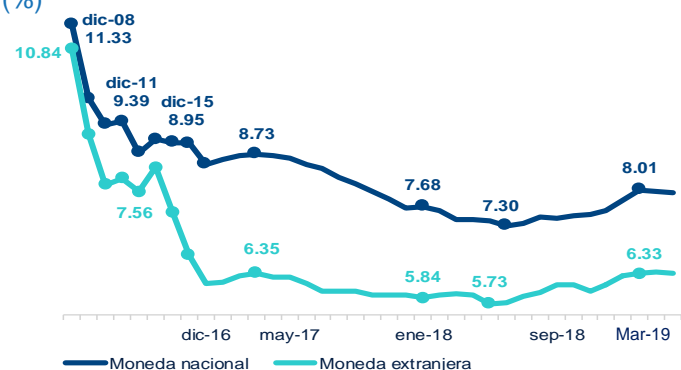(average for last 12 months, % change year on year)
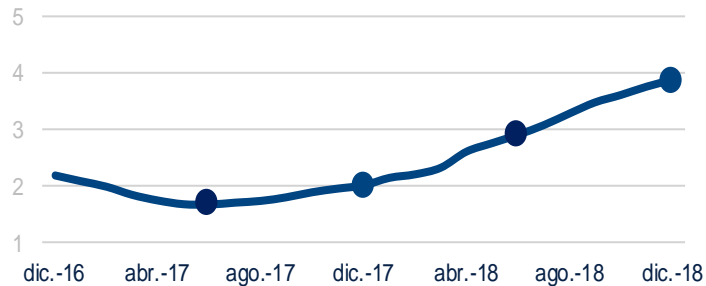
Total formal employment wage bill
(average for last 12 months, % change year on year)
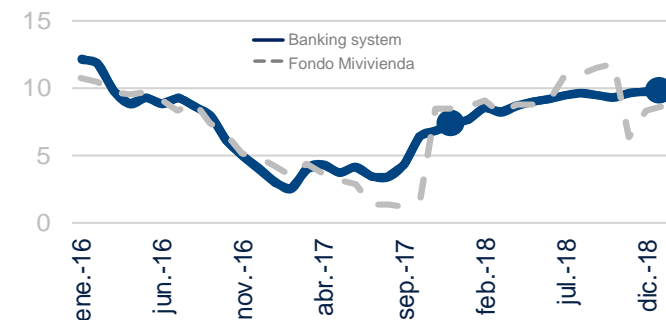

Mortgage lending interest rates*
(%)

dic-08 11.33
10.84
dic-11 9.39
dic-15 8.95
8.73
7.56
6.35
7.68
7.30
5.84
5.73
8.01
6.33

Moneda nacional   Moneda extranjera

Mortgage loans
(% change year on year)

Banking system
Fondo Mivivienda

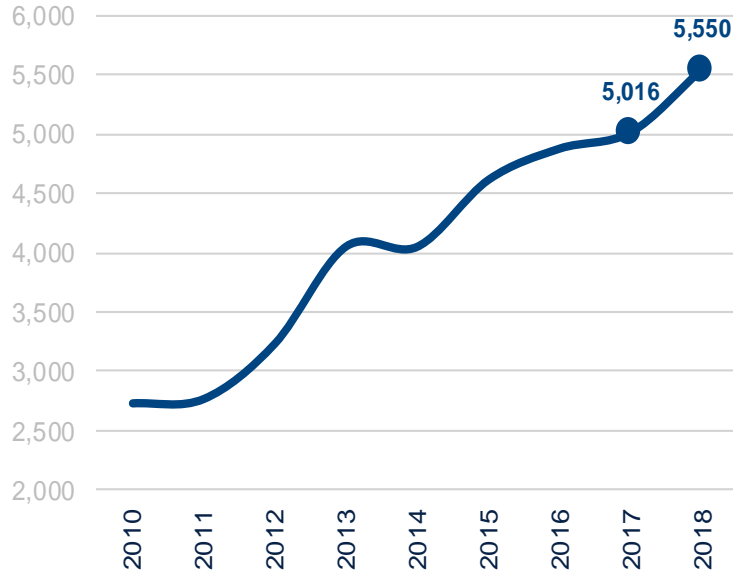■ Free availability of up to 25% of the fund accumulated in the AFP (Peruvian pension fund administrators) for buying a home

■ New financial products

* For banking company transactions performed in the last 30 business days

Source: BCRP (Peruvian central bank), SBS (Peruvian banking and insurance regulator), ASBANC (Peruvian banking assoc.), Fondo Mivivienda (Mivivienda Fund) and BBVA Research

With improved sales dynamism, housing prices increased.

Average price of a new apartment[1]
(per square meter, in Peruvian soles [S/])

Price of a new apartment according to district[1]
(per square meter, in Peruvian soles [S/], selected districts)

	2017	2018	Var. %
High			
San Isidro	7,545	8,475	12,3
Barranco	7,606	8,166	7,4
Medium			
Jesús María	5,712	6,079	6.4
Surquillo	5,713	5,874	2.8
San Miguel	5,021	5,104	1.7
Medium - low / Low			
San Juan de Lurigancho	3,169	3,177	0.3
Carabayllo	2,228	2,305	3.5
Comas	2,152	2,117	-1.6

(1) Simple average of prices in the 49 districts of Lima and Callao.

Source: CAPECO (Peruvian chamber of construction)

(1) Average price for the period.

Source: CAPECO (Peruvian chamber of construction)

02

New home supply and demand in Lima

Demand for apartments in Lima exceeds available market supply...

Interest on the purchase of an apartment in the next two years (number of homes)

Apartment supply
(number of homes)

?

These households are interested in buying an apartment in the next two years, have the initial deposit for the apartment they want and the monthly instalment they would pay (within the time horizon they want) does not exceed 30% of their net income.

58 tho usand

27 tho usand

Do those households interested in buying an apartment have access to credit (assets, limited debts, formal/predictable/verifiable income) to finance their purchase? If some of them do not have access, effective demand will be lower.

This question is more relevant for lower income households, which are probably the ones demanding the lowest price apartments.

Source: CAPECO (Peruvian chamber of construction) and BBVA Research

…something that is also observed by apartment price segment.

Apartment supply and demand by price
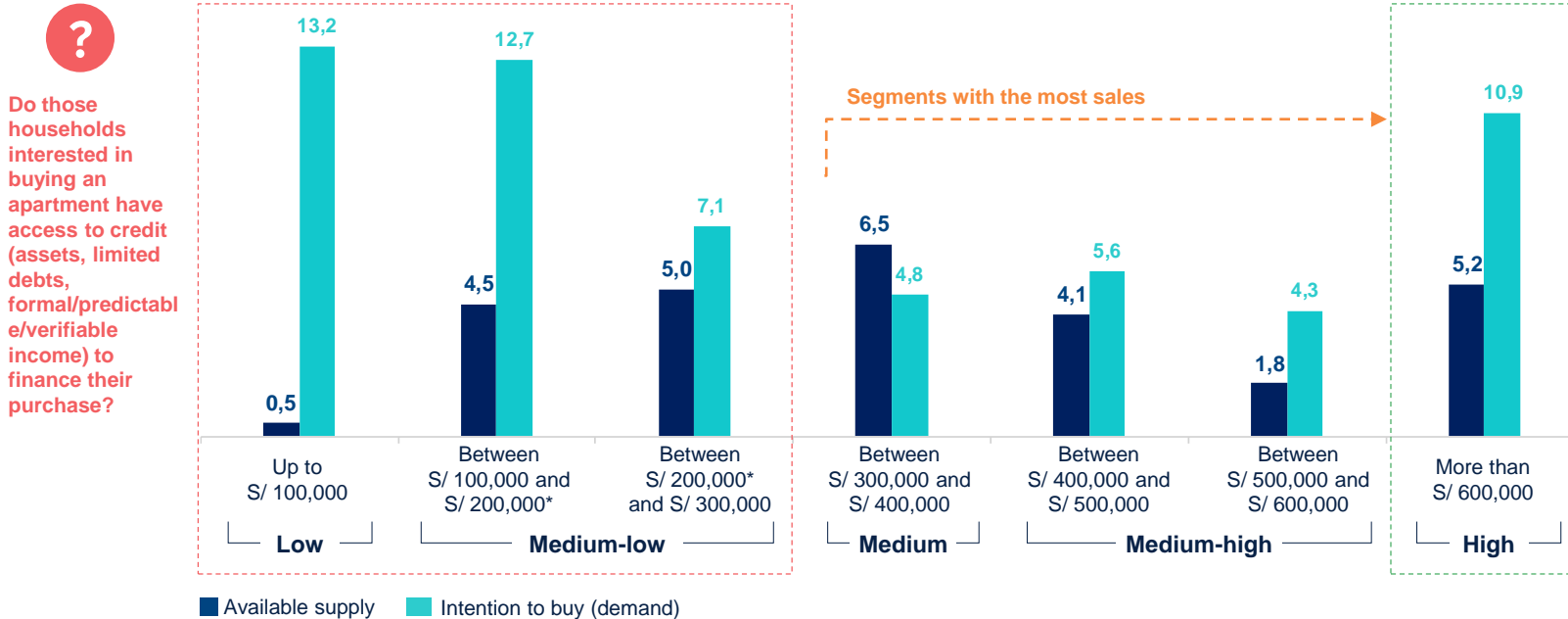(in thousands of units)

Do those households interested in buying an apartment have access to credit (assets, limited debts, formal/predictable/verifiable income) to finance their purchase?

Segments with the most sales

The gap is significant in this segment but it is also the price segment in which supply has grown the most. Is the new supply matching customer demands?

Segment	Price range	Available supply	Intention to buy (demand)
Low	Up to S/ 100,000	0,5	13,2
Medium-low	Between S/ 100,000 and S/ 200,000*	4,5	12,7
Medium-low	Between S/ 200,000* and S/ 300,000	5,0	7,1
Medium	Between S/ 300,000 and S/ 400,000	6,5	4,8
Medium-high	Between S/ 400,000 and S/ 500,000	4,1	5,6
Medium-high	Between S/ 500,000 and S/ 600,000	1,8	4,3
High	More than S/ 600,000	5,2	10,9

■ Available supply   ■ Intention to buy (demand)

* S/ 210,000 was used for supply
Source: CAPECO (Peruvian chamber of construction) and BBVA Research
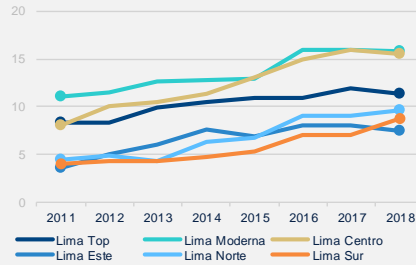
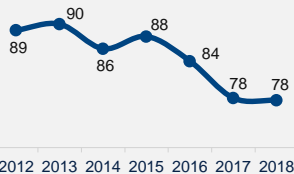# Has supply responded to this gap in the housing market?

Real estate supply

Number of floors of buildings under construction
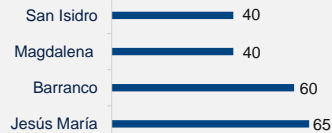(average)

■ Taller buildings

■ Smaller apartments, with fewer bedrooms

Legend: Lima Top, Lima Moderna, Lima Centro, Lima Este, Lima Norte, Lima Sur

Average size of apartments available for sale
(in square meters)

89, 90, 86, 88, 84, 78, 78
(2012 2013 2014 2015 2016 2017 2018)

The set-up of these types of projects will depend on local regulations
Minimum home size (m²)

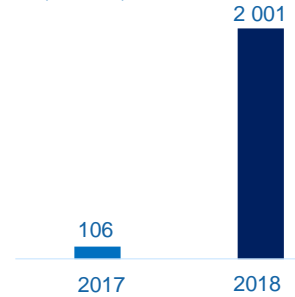|	
San Isidro	40
Magdalena	40
Barranco	60
Jesús María	65

*The city council recently raised the minimum size of apartments from 30 m2 to 60 m2 (source: Semana Económica).
Source: CAPECO (Peruvian chamber of construction) and BBVA Research

And the Government?

> **Is facilitating the purchase of new homes with certain features**

Mivivienda Verde Loans
(number)

2017: 106
2018: 2 001

■ The Mivivienda Verde (Mivivienda Green) loan is a benefit to aid the purchase of homes that incorporate environmental sustainability (certified).

■ The Fondo Mivivienda provides the green loan as a percentage (3% or 4%) discounted on the cost of financing (up to S/ 377,000)

■ The supply of environmentally sustainable homes has increased with demand

Source: Fondo Mivivienda

Housing supply would benefit if some more structural problems were resolved.

Difficulties obtaining building permits

Land scarcity

Lack of access to drinking water and electricity
(on the outskirts of Lima)

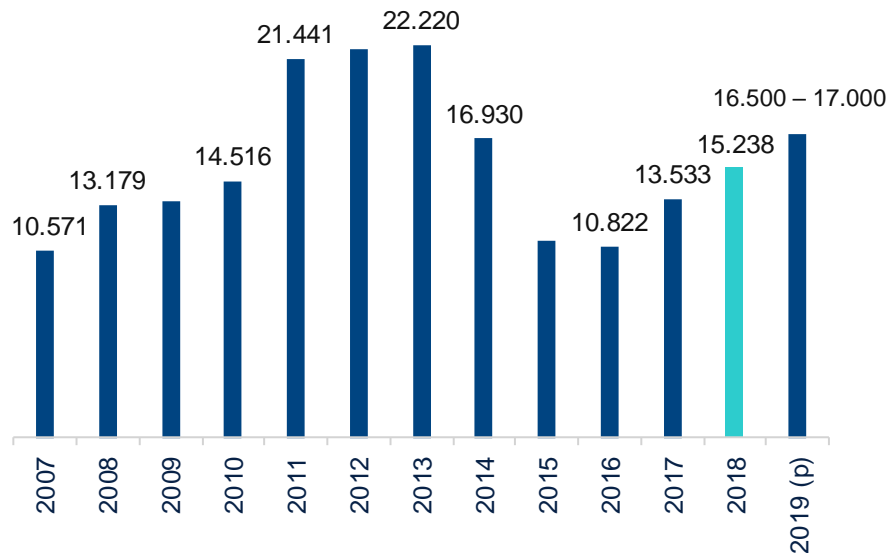**Fragmented municipal regulation**
(no urban development plan for Lima)

03

Outlook for the new home market in Lima

Sales of new apartments will continue to grow in 2019…

Sales of new apartments[1]
(in units)

(p) Projected
(1) Comprises the 49 districts of Lima and Callao. New apartments made up 98% of sales, with the remainder new houses. The information for each year covers data from August of the previous year to July of the current year.
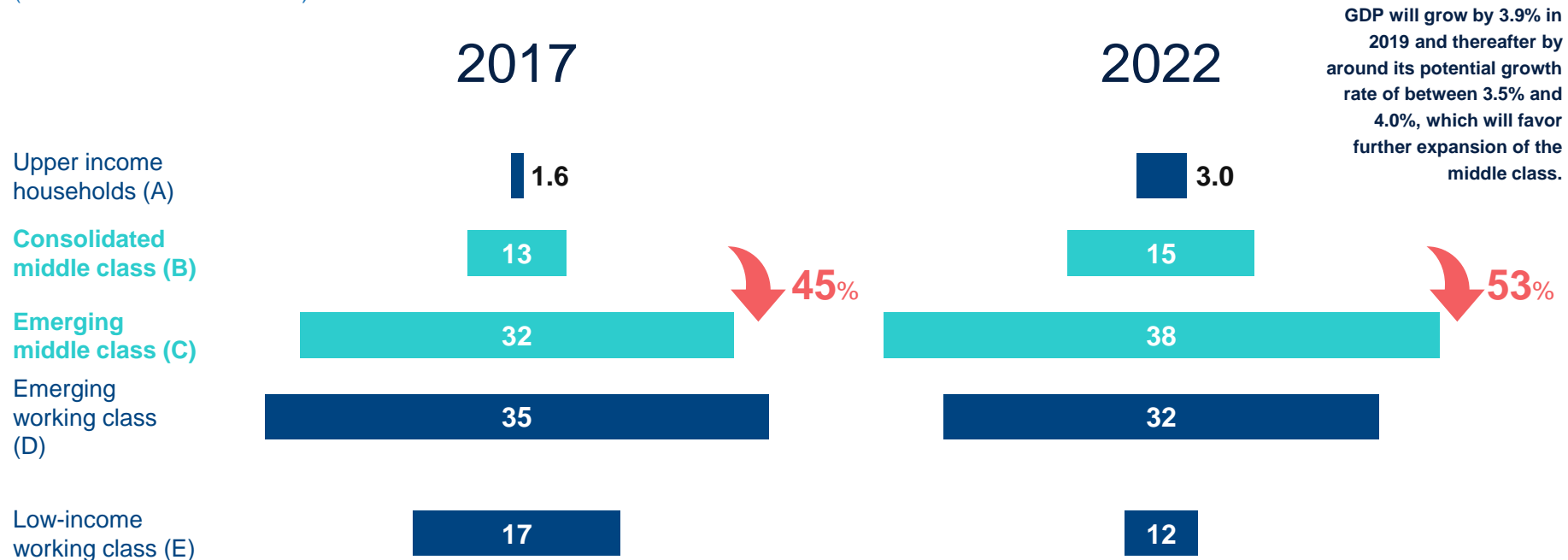Source: CAPECO (Peruvian chamber of construction) and BBVA Research

- We predict that **sales will continue to grow in 2019**, reaching between 16,500 and 17,000 units in the year.

- This result is explained by the **population's improved spending power** (an increase in formal employment), **helping more families to secure mortgage loans.**

- Furthermore:

  - **Interest rates will remain attractive.**

  - Housing subsidies (such as green bonds) will continue to encourage the financing of apartments of certain types and prices.

In the medium term, the demand for new homes will be supported by a growing middle class…

Structure of urban households by socio-economic level
(% of total urban households)

GDP will grow by 3.9% in 2019 and thereafter by around its potential growth rate of between 3.5% and 4.0%, which will favor further expansion of the middle class.

2017

2022

	2017	2022
Upper income households (A)	1.6	3.0
Consolidated middle class (B)	13	15
Emerging middle class (C)	32	38
Emerging working class (D)	35	32
Low-income working class (E)	17	12

45%

53%

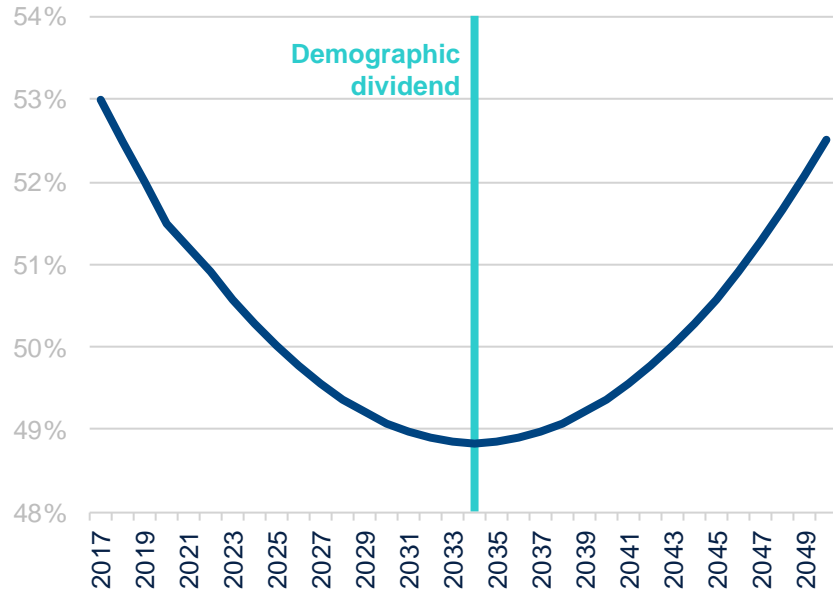Source: Apoyo Consultoría (forecast prepared in September 2018)

…working people having fewer dependents, favoring sales of small apartments…

Dependency rate
(dependent population as a percentage of the working age population)*
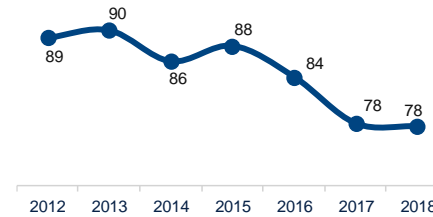

Demographic dividend

* Dependent population: up to 14 and over 65 years of age. Working age population: from 15 to 64 years of age, inclusive.
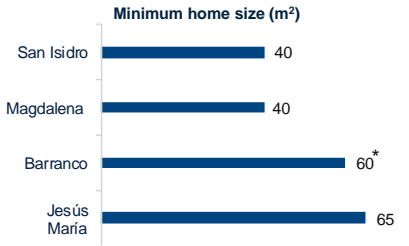Source: INEI (Peruvian national statistics institute) and BBVA Research

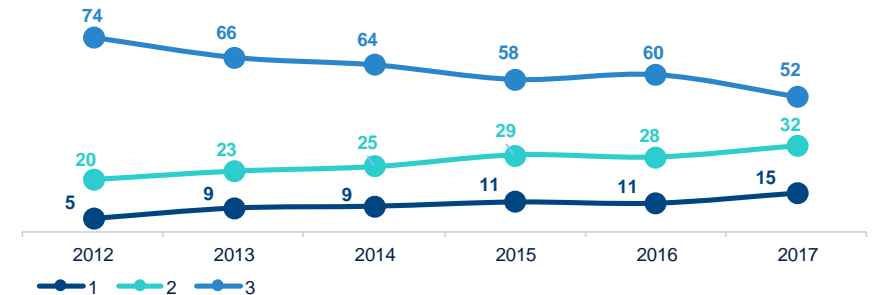## Average size of apartments available for sale
(in square meters)

2012 — 89
2013 — 90
2014 — 86
2015 — 88
2016 — 84
2017 — 78
2018 — 78

The set-up of these types of projects will depend on local regulations

Minimum home size (m²)

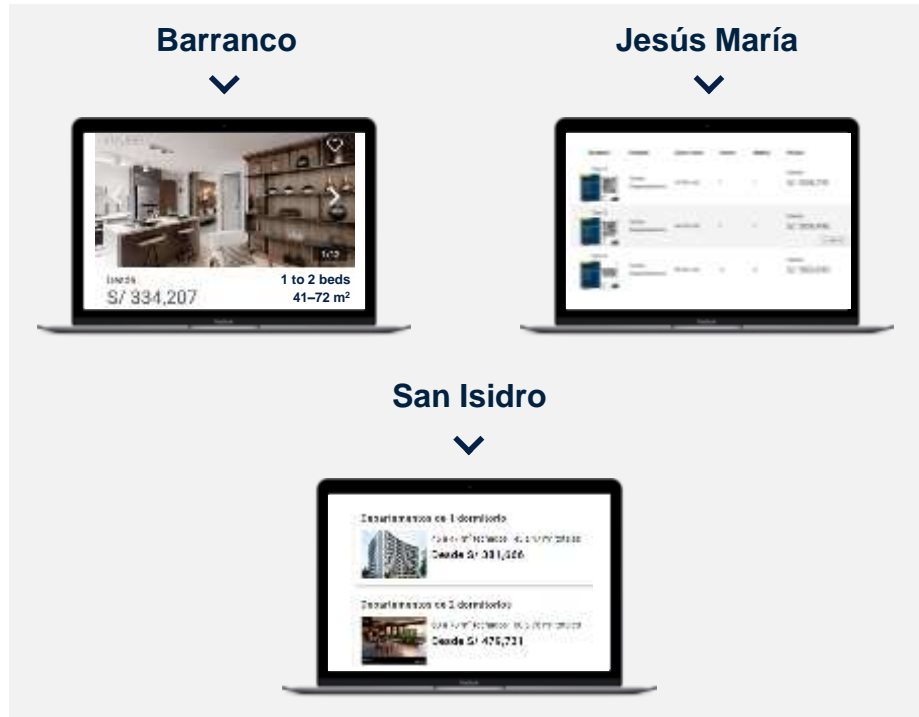|	
San Isidro	40
Magdalena	40
Barranco	60*
Jesús María	65

*The city council recently raised the minimum size of apartments from 30 m² to 60 m²

Apartments by number of bedrooms
(share of the total supply, %)

	2012	2013	2014	2015	2016	2017
3	74	66	64	58	60	52
2	20	23	25	29	28	32
1	5	9	9	11	11	15

…working people having fewer dependents, favoring sales of small apartments…

Barranco

Jesús María

1 to 2 beds
41–72 m²
S/ 334,207

San Isidro

- …aimed at young couples or seniors

- A number of districts have seen the emergence of these types of real estate projects: San Isidro, Barranco, Jesús María, Magdalena, Lince, San Miguel, Surquillo, Breña.

- In addition, there is interest in these apartments being located on major thoroughfares, with easier access to work, study and business hubs.

- People tend to prefer projects that have common areas, with spaces for co-working, social gatherings and leisure activities.

Source: Media outlets

…and in the gradual adaptation of supply to changes in housing demand, such as co-living (investment demand).

- Investors purchase apartments, usually small, and then rent them out. The demand is driven by students and professionals who want to be independent and to live near their place of work or in central areas in general but cannot afford high rents.

- This is a type of housing where the residents share space and facilities to save money.

- Co-living is common in large cities worldwide. It is oriented more toward millennials and originated from the basic premise of student housing, driven by higher real estate prices in urban areas.

- Several of these types of projects are being introduced in Lima. They are located in San Isidro, Barranco and San Miguel (project aimed at universities).
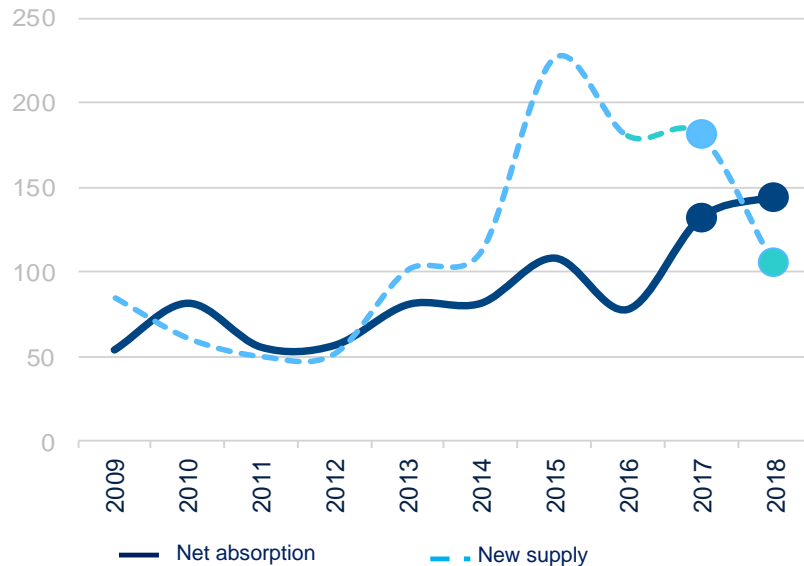

Arquitetos ingleses criam co-living para atrair millennials

El student coliving llega a Barcelona: la residencia de estudiantes de los millenials

04

Prime office market

The market continues to absorb the increased prime office *supply*.

Net absorption[1] and the new prime office *supply**
(thousands of square meters)

— Net absorption   - - New supply

*The prime offices are of the A+ and A type and are located in areas such as San Isidro Golf (on the outskirts of the business hub), Sanhattan (around Saga Falabella on calle Las Begonias), Miraflores, San Borja, Magdalena and Nuevo Este (Surco and la Molina).
1 Refers to the occupation and vacation of available buildings within the same period. Changes of location not considered
Source: Colliers

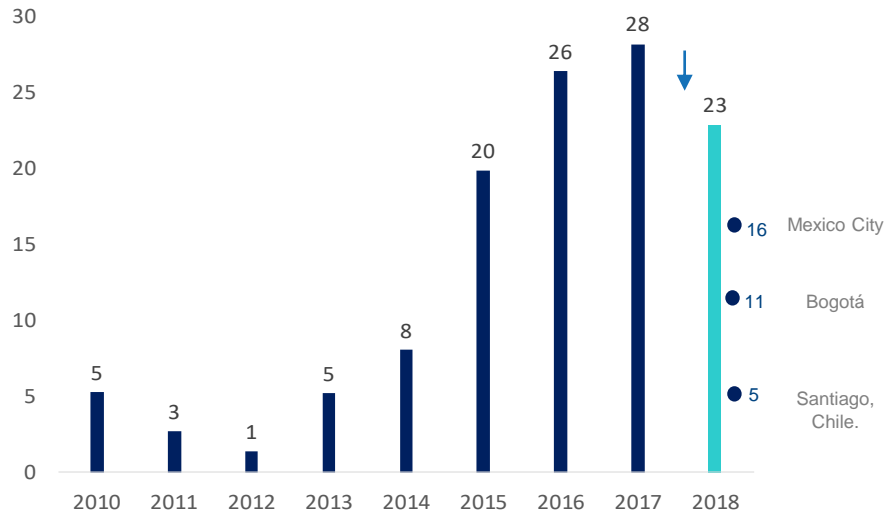
Greater business activity

New formats
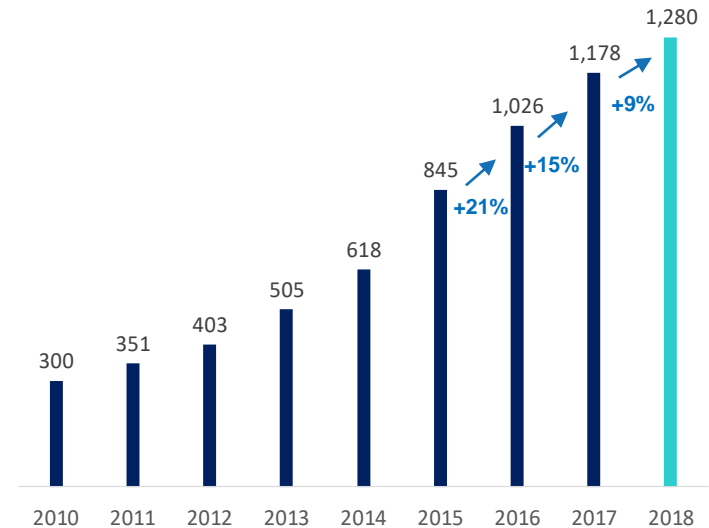(Co-working: during 2018, 20% of net absorption was placed with companies in this area)

Source: wework.com

As a result, vacancy rates have begun to fall but the market still has supply to digest...

Prime office vacancy rate[1]
(%)

- 16   Mexico City
- 11   Bogotá
- 5   Santiago, Chile.

Prime office stock[1]
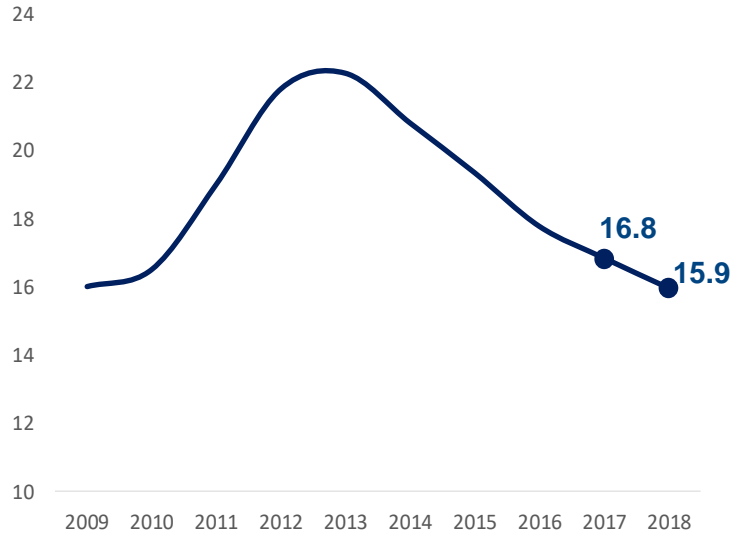(thousands of square meters)

(1) The vacancy rate is the percentage of square meters of office stock available to be sold or leased.
Source: Colliers

(1) Number of square meters of office space completed and operating on the market.

…which continues to put downward pressure on rents.

Average monthly rental of prime offices[1]
(USD/m²/month)

Relevant data on the prime office *market*

|	Stock (thousands of square meters)	vacancy rate (%)	Average monthly rental (USD/m2/mes)
Sanhattan	454	25	16
San Isidro Golf	134	6	21
Miraflores	134	12	17
San Borja	60	0	n.d
Magdalena	165	32	15
Nuevo Este	313	30	16
Surquillo	19	50	14
Total	**1,280**	**23**	**16**

(1) Also referred to as asking price. This is subject to negotiation and is also called the asking price. This amount does not include bills or maintenance costs.
Source: Colliers

In this context, the new supply of prime offices will plateau over the next two years.

New prime office supply
(thousands of square meters)

Projection Colliers
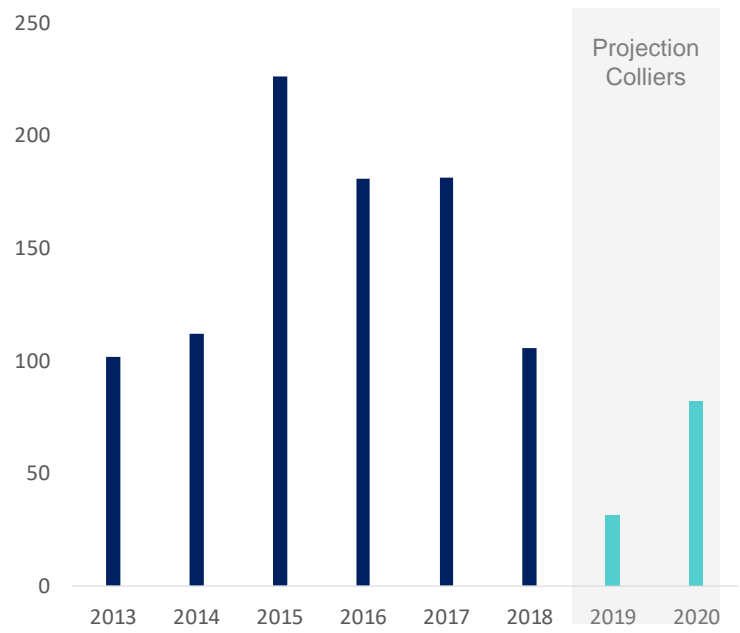
Source: Colliers

- It is estimated that a little over 31,000 square meters will come onto the market in 2019, with a further 82,000 in 2020.

- Co-working is starting to feature in the demand for office space. During 2018, 20% of net absorption was aimed at this type of demand. Similar figures are forecast for 2019.

- When the market has digested the available supply, new supply will begin to recover.

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Peru

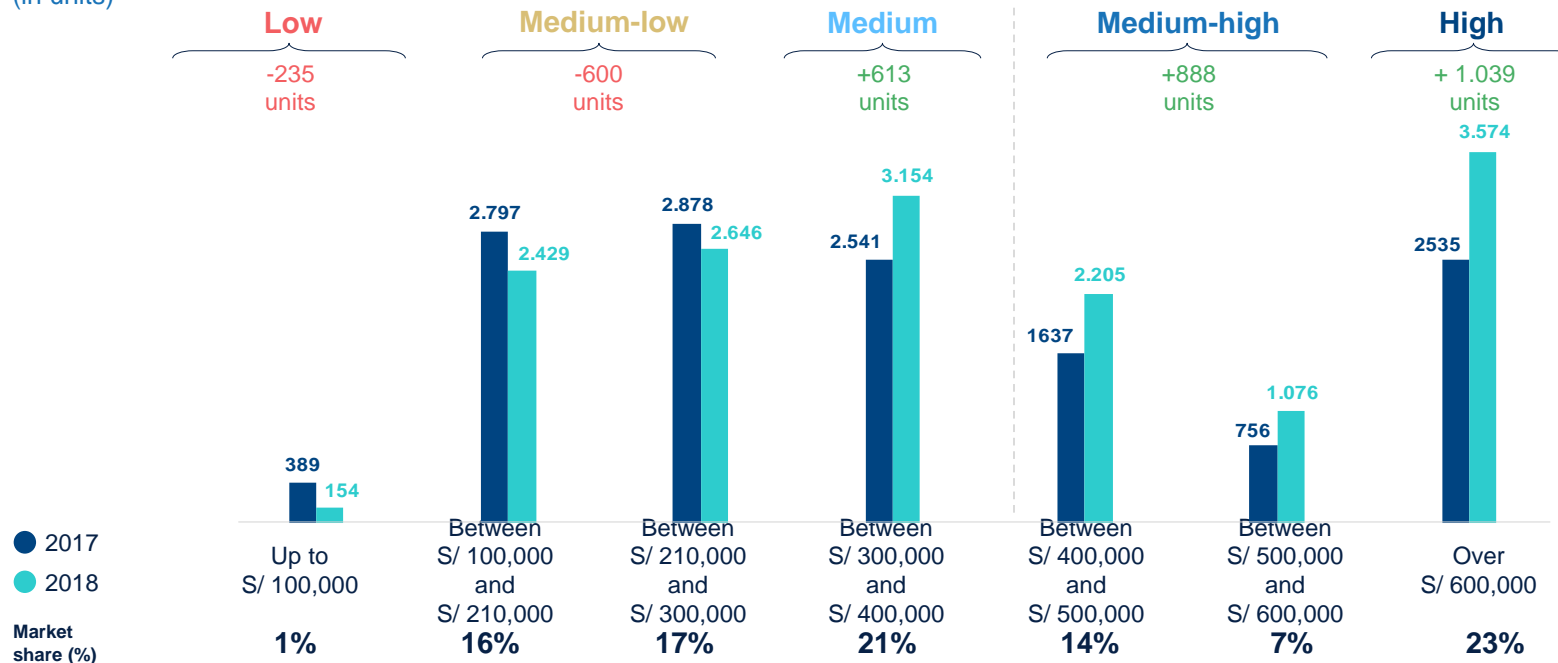# New home and prime office market in Lima Metropolitana

March 2019

Creando Oportunidades

Appendix 1. Sales of new apartments by price

Sales of new apartments by price [1]
(in units)

	Low	Medium-low	Medium	Medium-high	High
	-235 units	-600 units	+613 units	+888 units	+ 1.039 units

|	Up to S/ 100,000	Between S/ 100,000 and S/ 210,000	Between S/ 210,000 and S/ 300,000	Between S/ 300,000 and S/ 400,000	Between S/ 400,000 and S/ 500,000	Between S/ 500,000 and S/ 600,000	Over S/ 600,000
2017	389	2.797	2.878	2.541	1637	756	2535
2018	154	2.429	2.646	3.154	2.205	1.076	3.574
Market share (%)	1%	16%	17%	21%	14%	7%	23%

- 2017
- 2018

Market share (%)

(1) Comprises the 49 districts of Lima and Callao. New apartments made up 98% of sales, with the remainder new houses. The information for each year covers data from August of the previous year to July of the current year.
Source: CAPECO (Peruvian chamber of construction) and BBVA Research

Appendix 2. Sales of new apartments by district

Sales of new apartments by district
(in units)

● 2017
● 2018
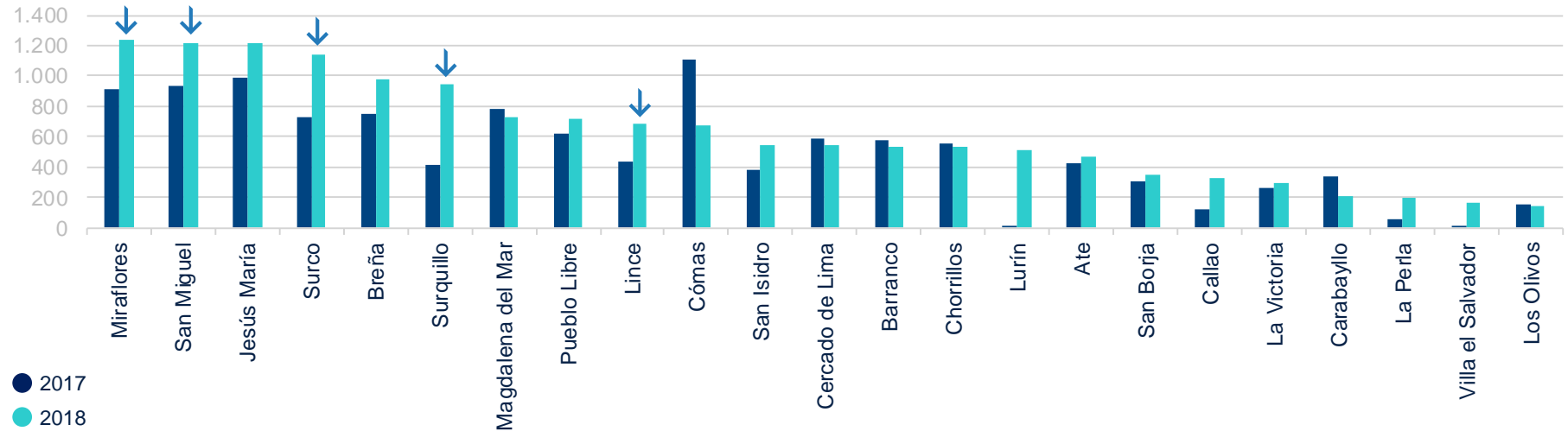
Source: CAPECO (Peruvian chamber of
construction) and BBVA Research

Sales in the Surquillo, Surco, Miraflores, San Miguel and Lince districts make up a little over 30% of the total units sold in 2018

Appendix 3. Supply of new apartments by price

Supply of new apartments by price [1]
(in units)

	Low	Medium-low	Medium	Medium-high	High
	-246 units	-1.175 units	+640 units	+982 units	+ 1.338 units

2017
2018

Market share (%)

Up to S/ 100,000	Between S/ 100,000 and S/ 210,000	Between S/ 210,000 and S/ 300,000	Between S/ 300,000 and S/ 400,000	Between S/ 400,000 and S/ 500,000	Between S/ 500,000 and S/ 600,000	Over S/ 600,000
326 / 462	4.693 / 4.473	5.838 / 4.978	5.863 / 6.493	3.513 / 4.114	1.410 / 1.791	3.828 / 5.154
0.3%	**15%**	**19%**	**24%**	**15%**	**7%**	**19%**

(1) Comprises the 49 districts of Lima and Callao. The information for each year covers data from August of the previous year to July of the current year.
Source: CAPECO (Peruvian chamber of construction) and BBVA Research

Appendix 4. Supply of new apartments by district

Supply of new apartments by price [1]
(in units)
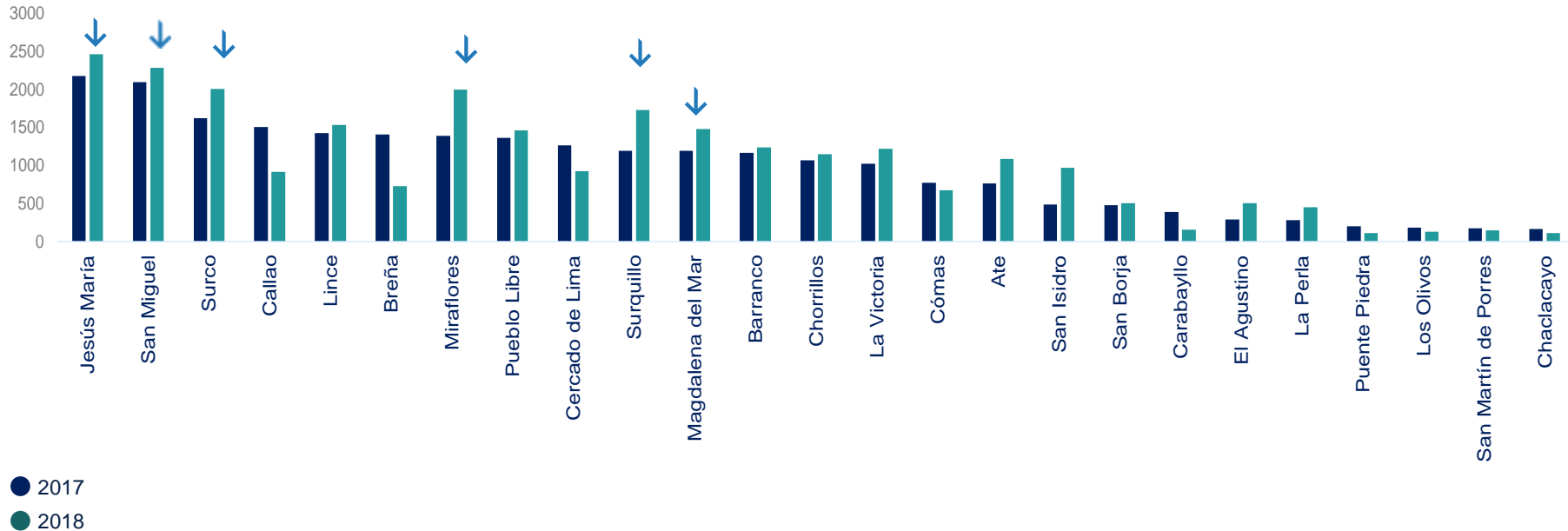
● 2017
● 2018

(1) Comprises the 49 districts of Lima and Callao. The information for each year covers data from August of the previous year to July of the current year.
Source: CAPECO (Peruvian chamber of construction) and BBVA Research

Appendix 5. Housing demand characteristics

90% **Consider applying for a loan as a payment method**

20% **of the price of the home would be made as a deposit**
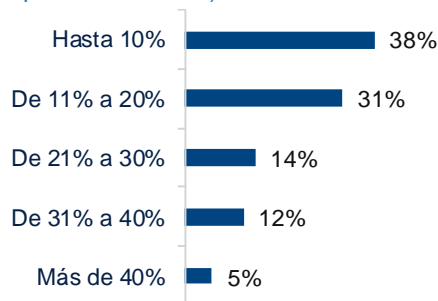(86% of the population would take up to 12 months to put it together)

14 years **is the average time that people would pay off a housing purchase**
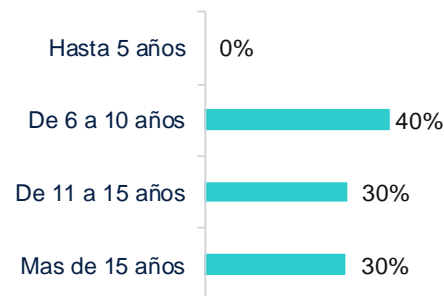
S/ 2,400 **is the average deposit that people could make on a housing purchase**
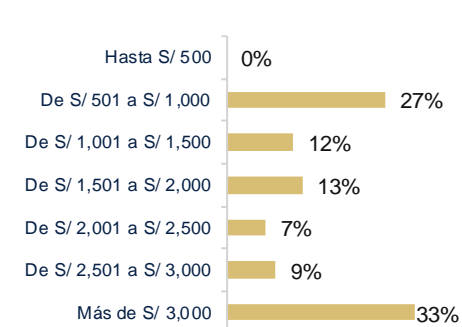
Deposit
(% price of the home)

Hasta 10%	38%
De 11% a 20%	31%
De 21% a 30%	14%
De 31% a 40%	12%
Más de 40%	5%

Payment period

Hasta 5 años	0%
De 6 a 10 años	40%
De 11 a 15 años	30%
Mas de 15 años	30%

Deposit that buyers could make

Hasta S/ 500	0%
De S/ 501 a S/ 1,000	27%
De S/ 1,001 a S/ 1,500	12%
De S/ 1,501 a S/ 2,000	13%
De S/ 2,001 a S/ 2,500	7%
De S/ 2,501 a S/ 3,000	9%
Más de S/ 3,000	33%

Source: CAPECO (Peruvian chamber of construction) and BBVA Research

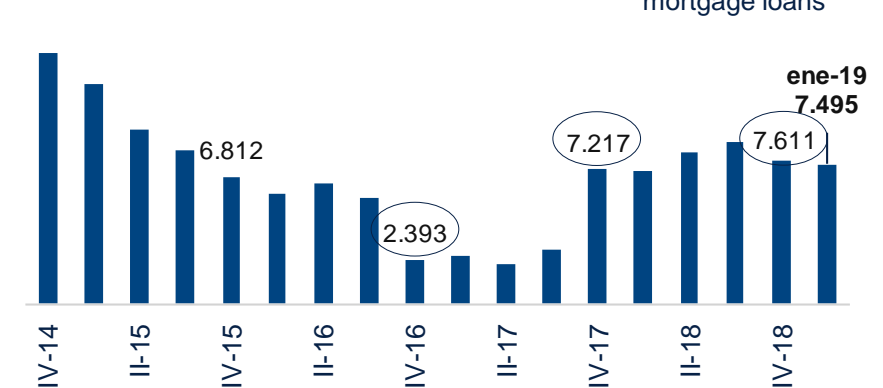# Appendix 6. Mortgage loans

Mortgage loans in the banking sector
(% change year on year, end of period)
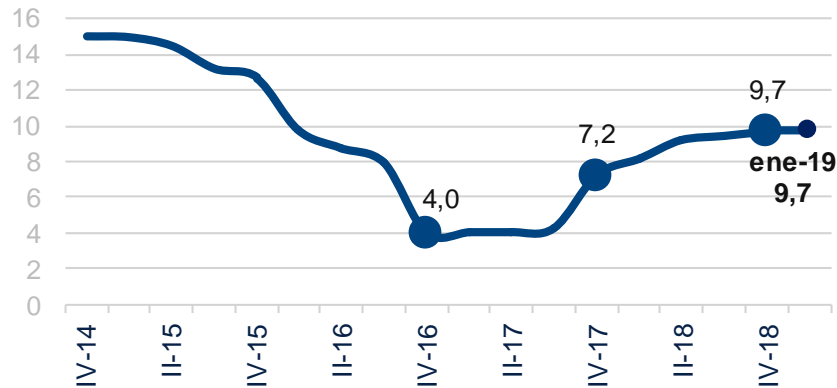
Number of mortgage debtors*
(annual change, end of period)

Close of 2018
224 thousand
mortgage loans
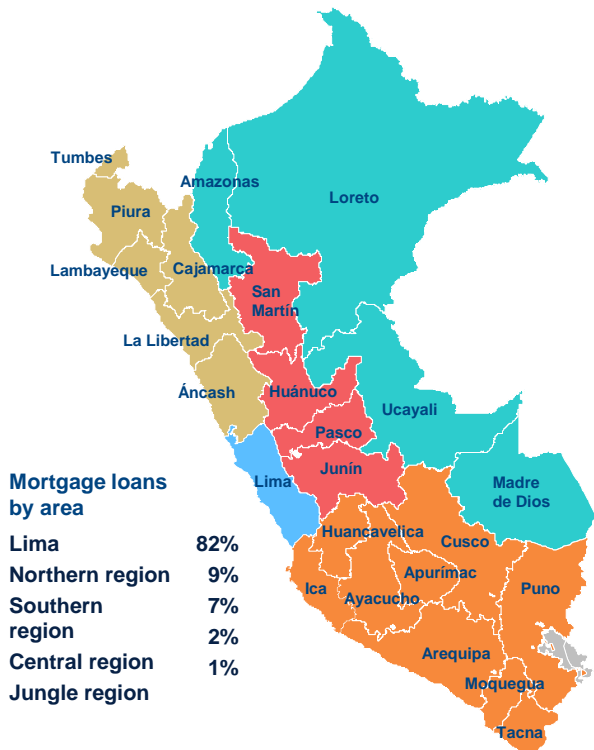
Mortgage loans

S/ 45.3 million
balance to January 2018

17%
dollarized

17%
placed
within the banking
sector

* Considers the banking sector
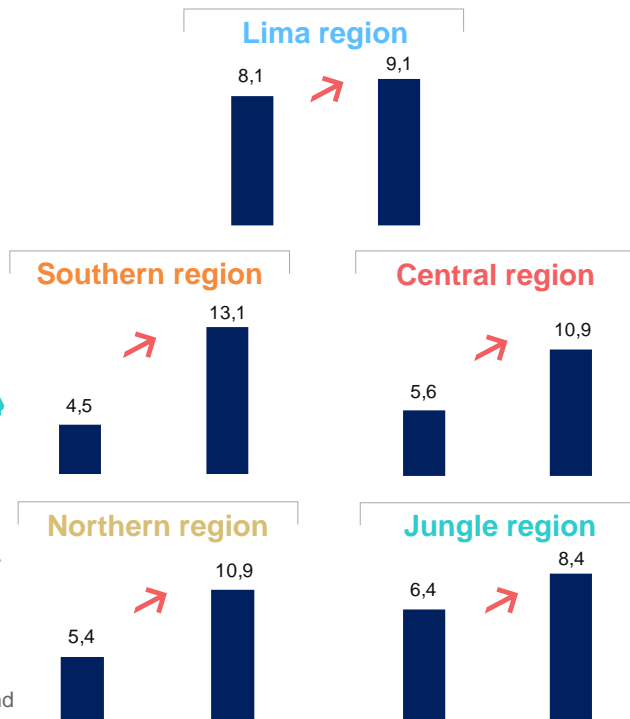Source: SBS (Peruvian banking and insurance supervisor) and BBVA Research
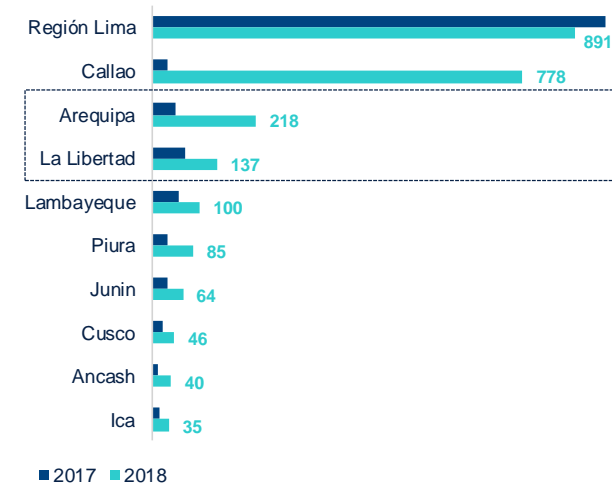
Appendix 7. Mortgage loans by geographic area

Mortgage loans by area

Lima	**82%**
Northern region	**9%**
Southern region	**7%**
	2%
Central region	**1%**
Jungle region	

* Takes into account the entire financial sector
** As at November 2018
Source: SBS (Peruvian banking and insurance supervisor) and BBVA Research

Mortgage loans by geographic area *
(% change year on year, end of period 2017/2018**)

Lima region
8,1 → 9,1

Southern region
4,5 → 13,1

Central region
5,6 → 10,9

Northern region
5,4 → 10,9

Jungle region
6,4 → 8,4

Top 10 mortgage loans by region *
(year-on-year change, end of period, millions of soles)

Region	2018
Región Lima	891
Callao	778
Arequipa	218
La Libertad	137
Lambayeque	100
Piura	85
Junin	64
Cusco	46
Ancash	40
Ica	35

■ 2017 ■ 2018

*** In Lima Metropolitana, there was marked growth in mortgage loans to people living in San Isidro. Far less pronounced was the growth in San Borja, Santiago de Surco, Jesús María, San Miguel, La Molina, San Martín de Porres, Surquillo, Lince and Comas.

Appendix 8. Fondo Mivivienda loans

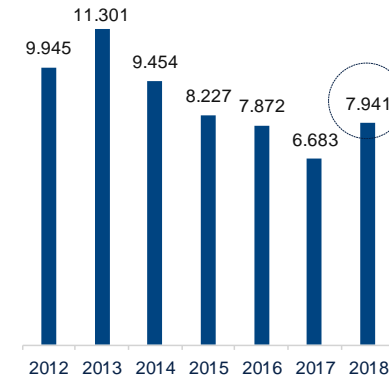## …in a context of more flexible requirements for securing loans and greater benefits

Number of Fondo Mivivienda loans

2018

9
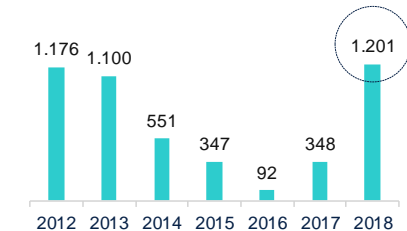thousand

2019 **(target)**

11
thousand

Holders of mortgage loans financed by intermediary financial institutions with funds from Fondo Mivivienda S.A. Mivivienda loans currently comprise: New Mivivienda loans, Green loans and Techo Propio

Loans disbursed for the year
(Number)

New Mivivienda loans*

Year	Value
2012	9.945
2013	11.301
2014	9.454
2015	8.227
2016	7.872
2017	6.683
2018	7.941

Techo Propio loans**

Year	Value
2012	1.176
2013	1.100
2014	551
2015	347
2016	92
2017	348
2018	1.201

Mivivienda Green Bond: 2000 awarded in 2018

* Fixed-rate mortgage loans in soles, with a repayment term of 5 to 20 years and a minimum deposit of 10% to finance the purchase of finished homes or homes at any stage of construction, built on the owner's land or as an extra story on an existing building, or for home improvement purposes; ranging from S/ 58,800 to S/ 310,800.   ** Additional Techo Propio (Your Own Roof) financing: A mortgage loan that forms part of the Techo Propio program, granted by a financial institution to cover the difference between the cost of purchasing, building or improving the home and the family's savings together with the subsidy (loan) granted by the government.
Source: Fondo Mivivienda

Appendix 9. Fondo Mivivienda (Bono del buen pagador)

Bono del Buen Pagador (good payer bonus)

Non-repayable financial assistance granted if you take out a Mivivienda loan through a financial institution

What does it offer?

Increase your initial deposit and obtain a smaller loan. The value of the Bono del Buen Pagador (BBP) is based on the value of the home, as follows:

Value of the home	Value of the BBP
From S/ 58,800 to S/ 84,100	S/ 17,700
Over S/ 84,100 to S/ 125,900	S/ 14,600
Over S/ 125,900 to S/ 209,800	S/ 13,000
Over S/ 209,800 to S/ 310,800	S/ 6400

Source: Fondo Mivivienda

Appendix 10. Fondo Mivivienda (Mivivienda Verde)

Mivivienda Verde (Green loan)

A Mivivienda Fondo program that promotes and provides access to green homes. A green home is one that incorporates sustainability criteria into its design and construction, thereby reducing its environmental impact.

What does it offer?

The Mivivienda Verde bonus is granted as a percentage (3% or 4%) of the financing amount (net of the initial deposit and the BBP, where applicable), based on the degree of sustainability of a green home purchased from a development.

Financing amount	Degree of sustainability	
	Degree 1	Degree 2
Up to S/ 140,000	4%	
Over S/ 140,000[1] up to S/ 377,640	3%	4%

1: Financing amount without taking into account the Bono Mivivienda Verde (BMV).
Degree 1: Homes with low water and power consumption technology, bioclimatic architecture, solid waste management and a communication plan for residents of green developments.
Degree 2: Degree 1 homes + wastewater treatment for irrigation

Source: Fondo Mivivienda