

OFFICE

REPORT Q1 2020

Colliers
INTERNATIONAL

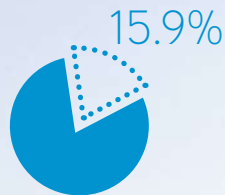
PRIME MARKET INDEXES (A+ and A)

	Q4 2019	Q1 2020
Vacancy Rate	▼	▼
Net Absorption	▲	▼
New Supply	▲	◀▶
Rental Price	▼	◀▶

Key Highlights

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During the first quarter of 2020 the entry of new buildings into the prime segment wasn't registered



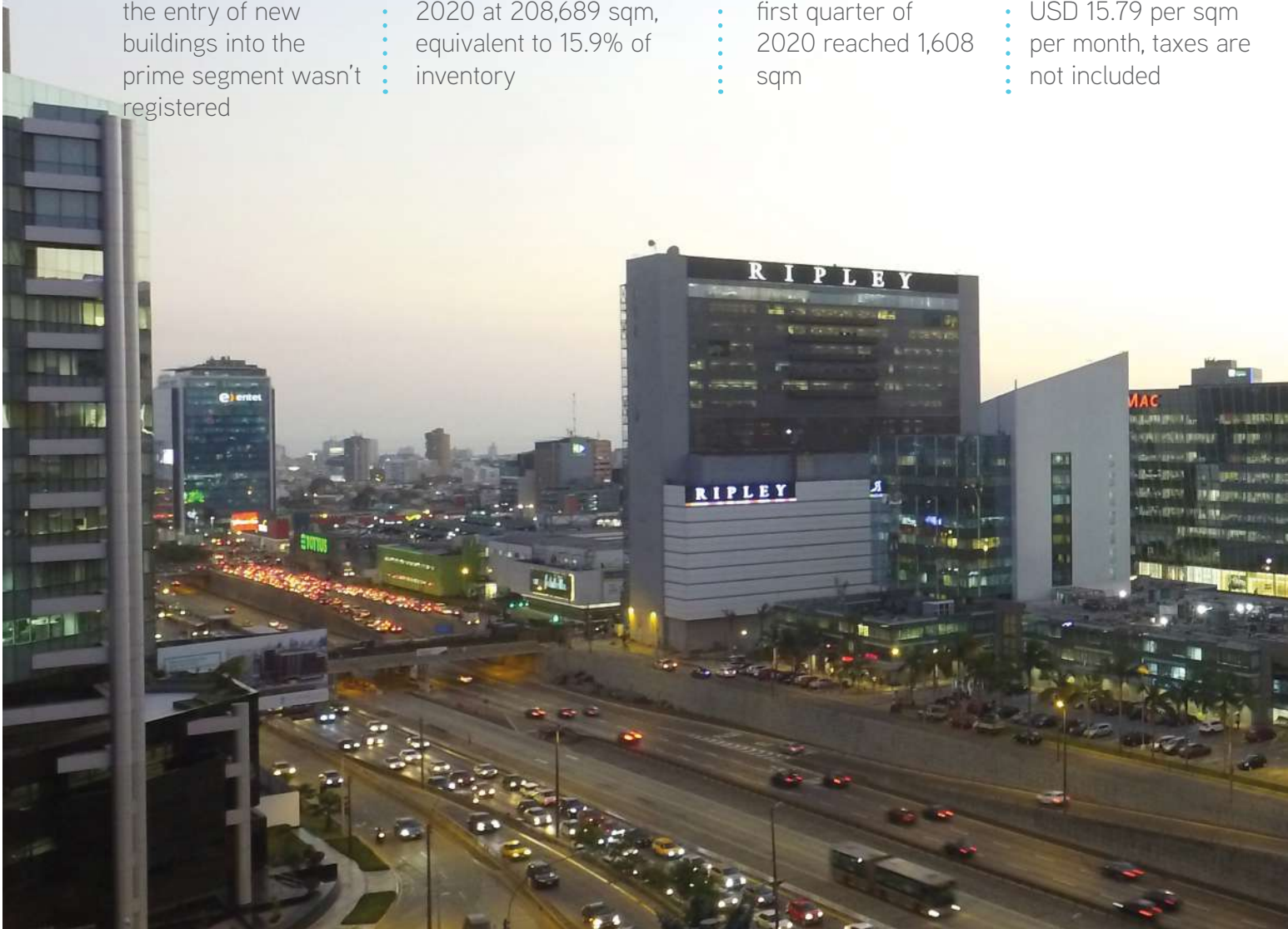
The prime office vacancy ended the first quarter of 2020 at 208,689 sqm, equivalent to 15.9% of inventory

1,608 sqm
net absorption

Prime market net absorption in the first quarter of 2020 reached 1,608 sqm

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The average rental price (asking price) is USD 15.79 per sqm per month, taxes are not included



CURRENT OUTLOOK

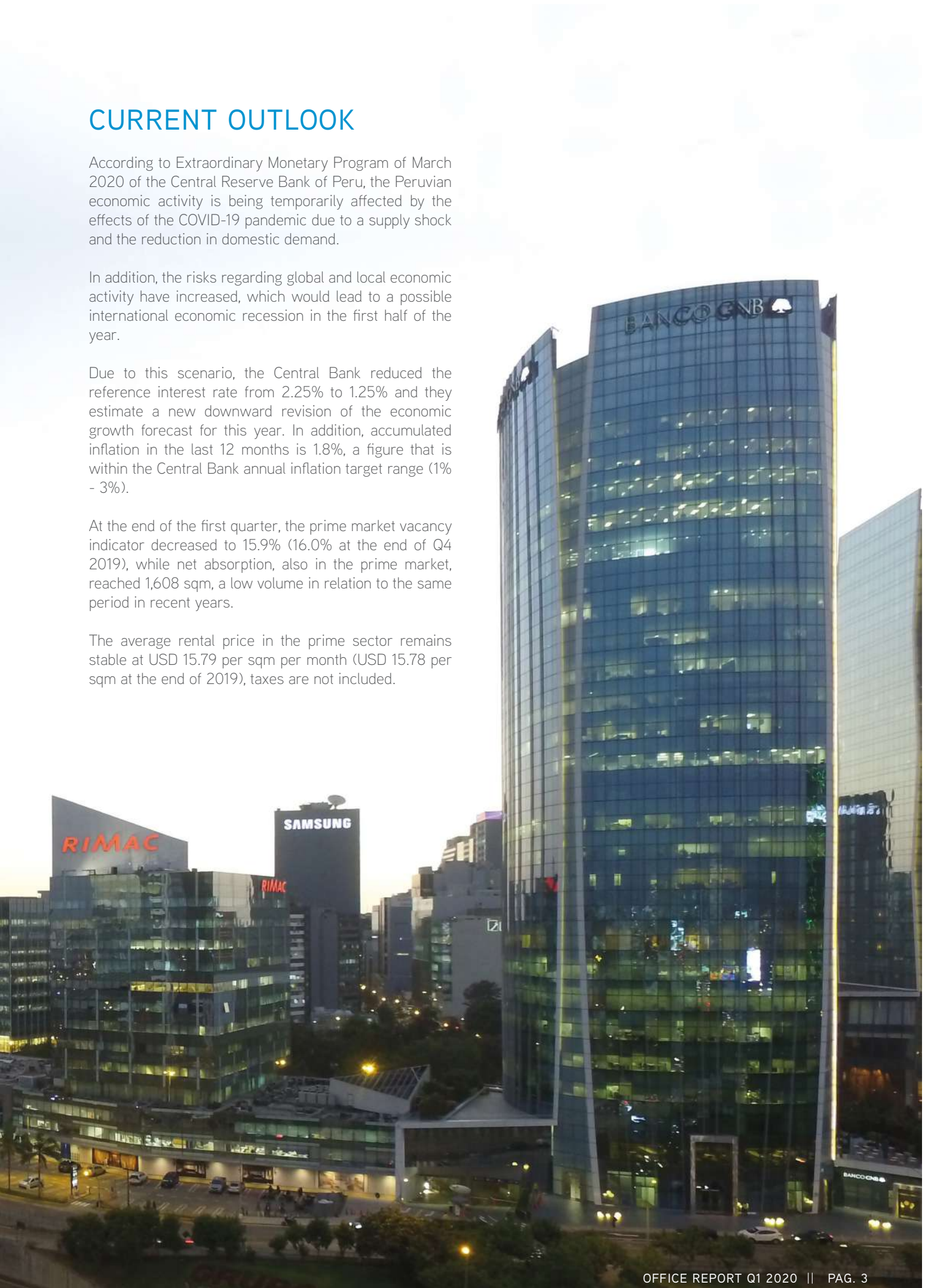
According to Extraordinary Monetary Program of March 2020 of the Central Reserve Bank of Peru, the Peruvian economic activity is being temporarily affected by the effects of the COVID-19 pandemic due to a supply shock and the reduction in domestic demand.

In addition, the risks regarding global and local economic activity have increased, which would lead to a possible international economic recession in the first half of the year.

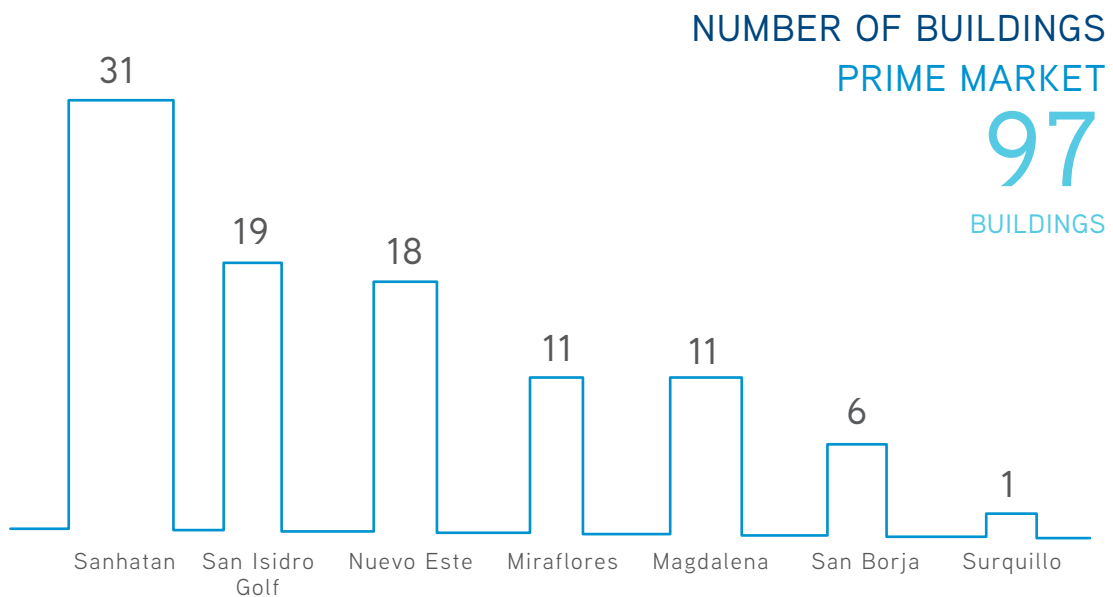
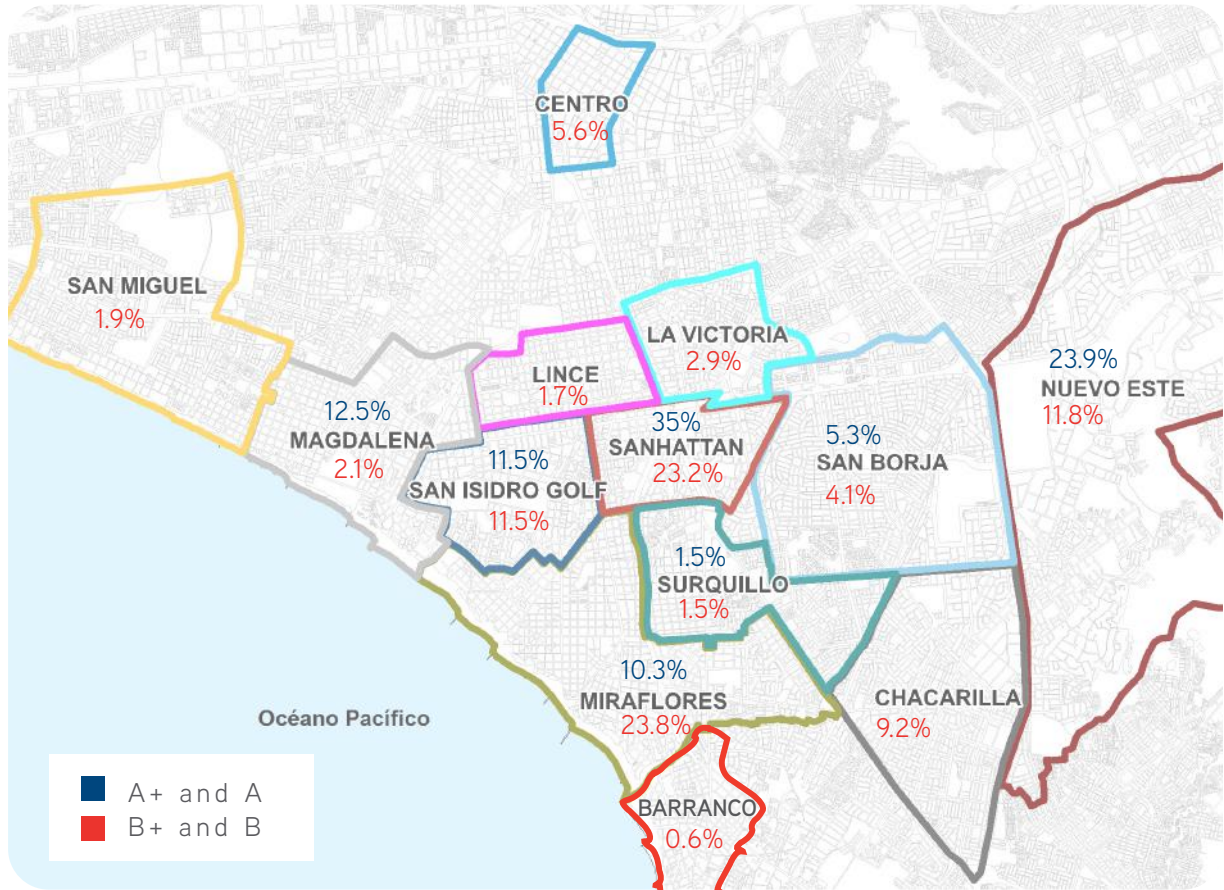
Due to this scenario, the Central Bank reduced the reference interest rate from 2.25% to 1.25% and they estimate a new downward revision of the economic growth forecast for this year. In addition, accumulated inflation in the last 12 months is 1.8%, a figure that is within the Central Bank annual inflation target range (1% - 3%).

At the end of the first quarter, the prime market vacancy indicator decreased to 15.9% (16.0% at the end of Q4 2019), while net absorption, also in the prime market, reached 1,608 sqm, a low volume in relation to the same period in recent years.

The average rental price in the prime sector remains stable at USD 15.79 per sqm per month (USD 15.78 per sqm at the end of 2019), taxes are not included.

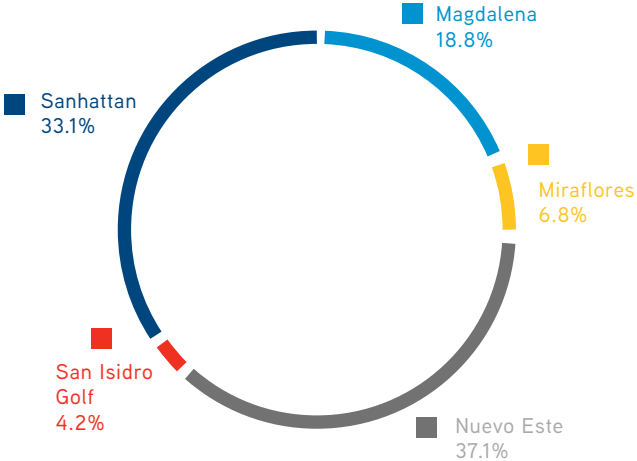


INVENTORY DISTRIBUTION LIMA OFFICES



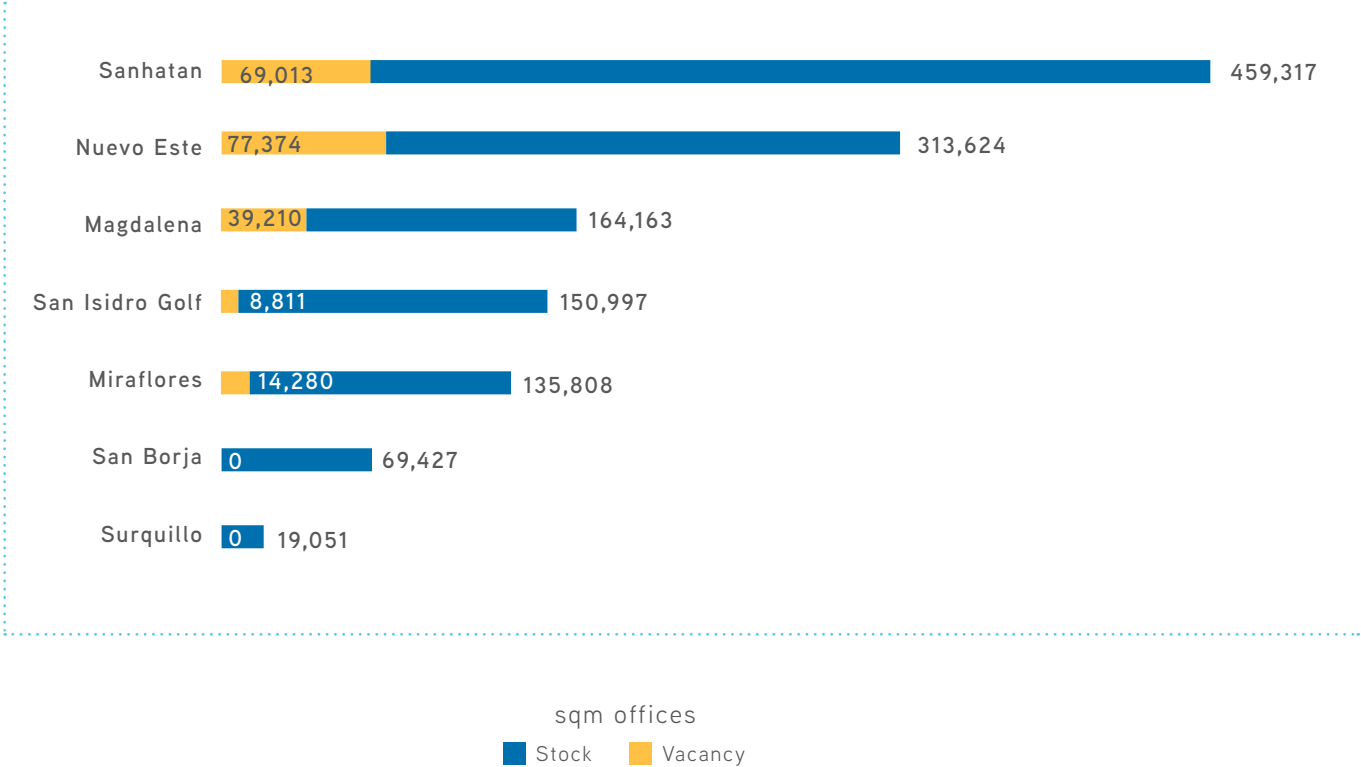
VACANCY DISTRIBUTION

A+ and A OFFICES



PRIME MARKET OFFICES

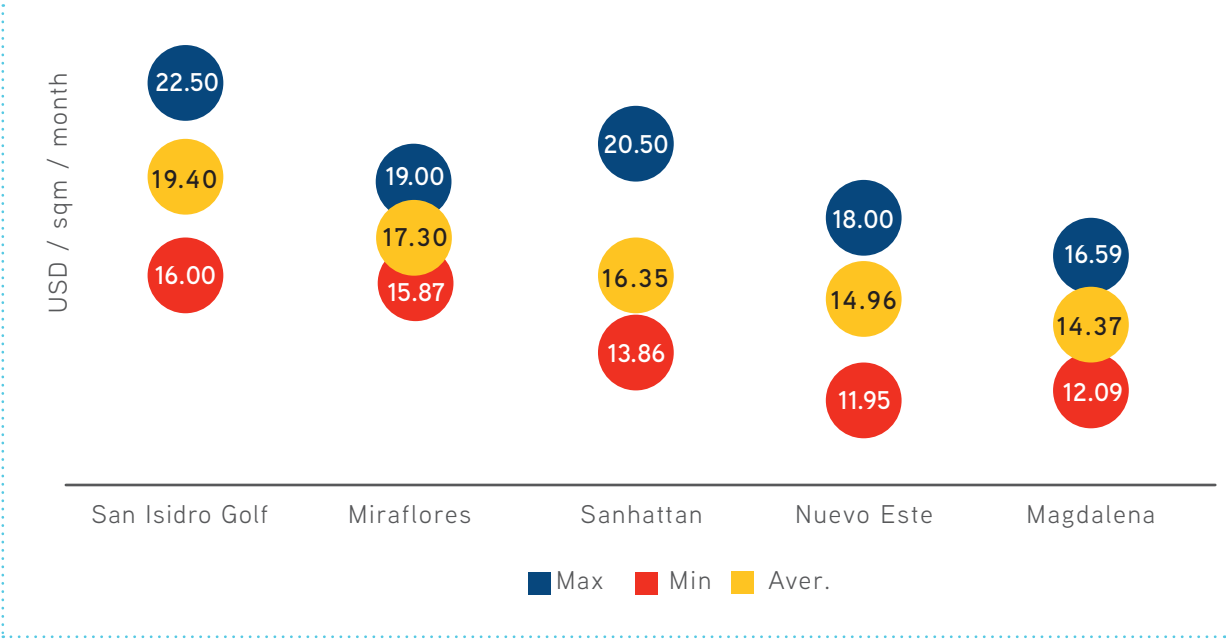
STOCK AND VACANCY (sqm) Q1 2020 / BY SUBMARKET



PRIME MARKET PRICES

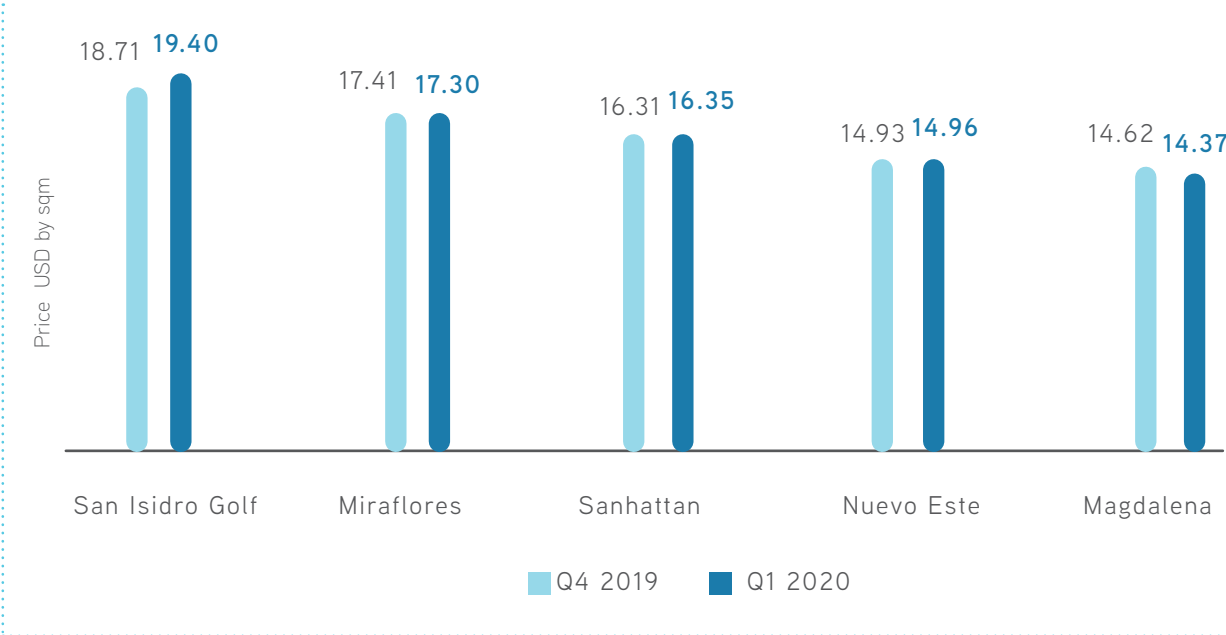
In line with the market recovery trend, rent asking prices for the prime office sector remain stable during the first quarter of 2020, compared to the end of 2019. Thus, at the end of Q1 2020, the average rental price (asking price) for offices without tenant improvements (TI's) stands at USD 15.79 per sqm plus tax (USD 15.78 per sqm at the end of 2019).

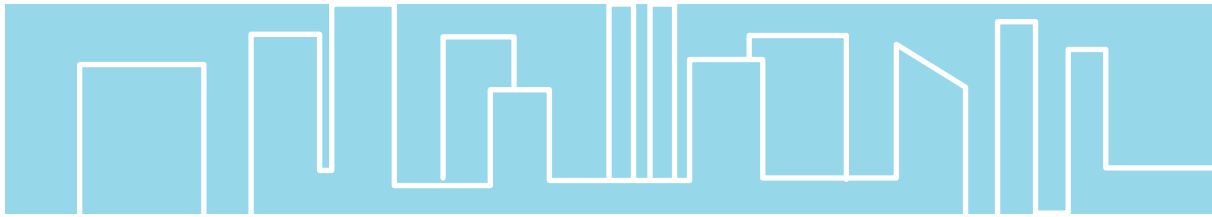
Average rental prices (asking prices) / by submarket



By building category, for class A+ offices, the average rental price (asking price) per month is USD 16.01 per sqm, ranging from USD 14.00 per sqm (Nuevo Este submarket) to USD 22.50 per sqm (San Isidro Golf submarket). Meanwhile, for class A offices, the average rental price is USD 15.40 per sqm, in a range between USD 21.83 per sqm (San Isidro Golf submarket) and USD 11.95 per sqm (Nuevo Este submarket).

Quarterly variation of average rental price (asking price)





With respect to the supply of prime offices for sale in operational buildings, availability is distributed in the Magdalena, Nuevo Este, Sanhattan and Miraflores submarkets, totaling more than 39,000 sqm. The average sale price is standing at USD 2,162 per m² plus tax. The average price for class A + offices is USD 2,204 per m², while for class A offices the average sale price (list price) is USD 1,950 per sqm plus tax. These prices correspond to offices in gray structure, without implementation or furniture.

PRIME MARKET SUPPLY AND DEMAND

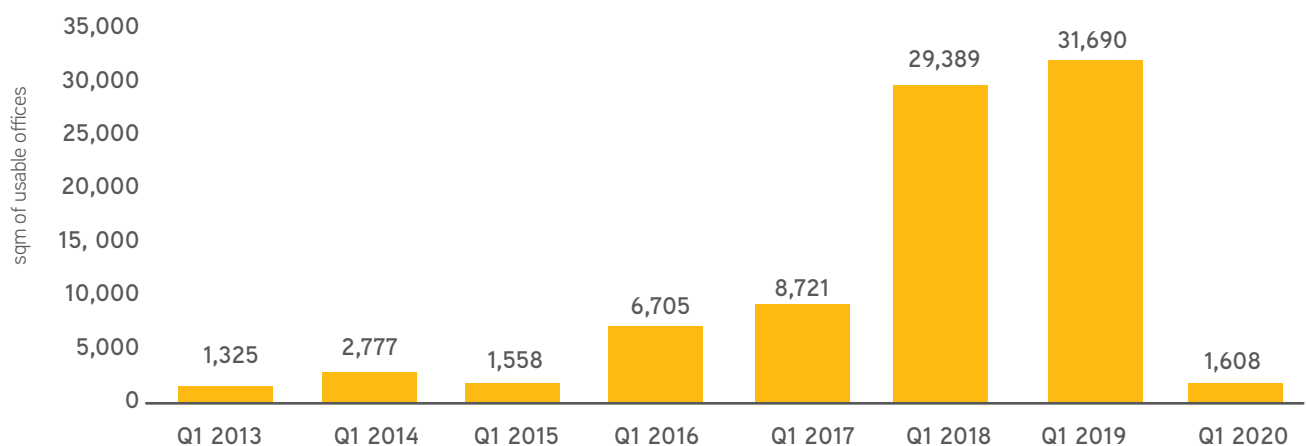
During the first quarter of 2020 no entries of new buildings to the prime market inventory were recorded, maintaining the inventory in 1,312,387 sqm of usable offices, distributed in 97 buildings.

The vacancy indicator at the end of the first quarter of 2020 is at 15.9% with respect to the total inventory of offices (16.0% at the end of the Q4 of 2019), equivalent to 208,689 sqm. Regarding the total availability of prime offices in the market, Nuevo Este continues to be the submarket with the highest concentration of available spaces, representing 37.1% of the total vacancy, followed by Sanhattan with 33.1% and Magdalena with 18.8%, in these three submarkets is 89.0% of the total availability of the prime market.

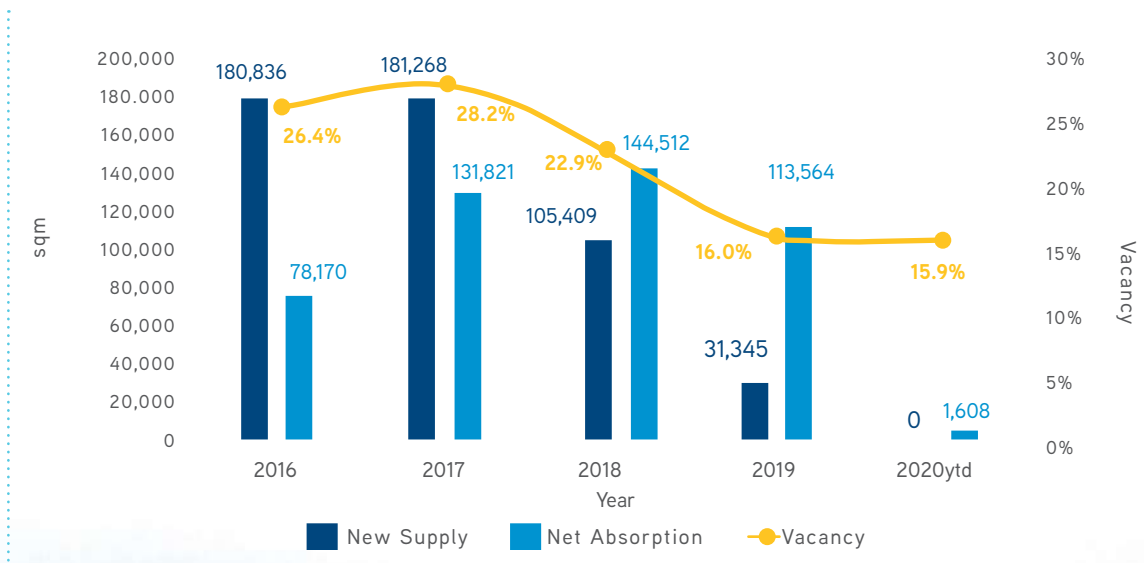
It should be noted that during the first quarter of 2020 office vacating also was recorded in different submarkets, totaling just over 12,500 m² in these first three months. Office vacancy is mainly due to migration of occupants to other buildings, disposition for rent for the market (from end user to supply) and, to a lesser extent, to the reduction of occupied spaces.

In this context, the net absorption indicator shows that, for the first quarter of 2020, 1,608 m² of usable offices were reached, the lowest quarterly level in the last 5 years. A similar scenario occurred during the first quarter of 2015, period in which the net absorption reached 1,558 sqm.

Net Absorption: First Quarter / Historical Period



New Supply, Net Absorption and Vacancy - Prime Sector



B+ and B OFFICE MARKET

	Q4 2019	Q1 2020
Vacancy Rate	▲	▼
Net Absorption	▲	▼
New Supply	▲	▲
Rental Price	▼	▼

During the first quarter of 2020, a new building began operations in the sub prime office market, this is the Edificio Benavides 4828, in the Chacarilla submarket, increasing the inventory of usable offices by 1,795 m², which it reaches to date a total of 1,314,183 sqm.

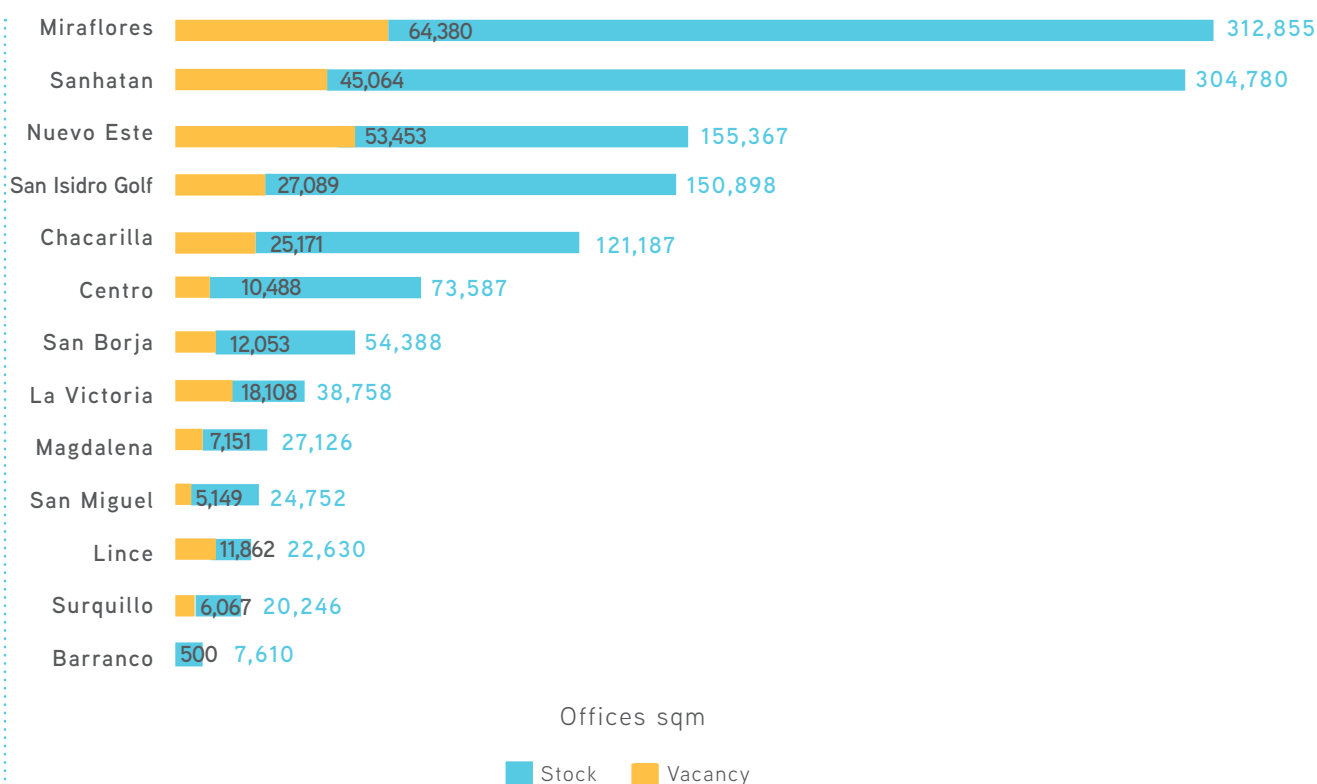
The vacancy indicator at the end of the first quarter of 2020 shows a decrease compared to the previous period, now standing at 21.8% equivalent to 286,534 sqm of usable offices, at the end of 2019 the vacancy in this sector was at 22.3%.

Miraflores submarket has the highest concentration of availability of these offices (22.5% of the total vacancy), followed by Nuevo Este with 18.7% and Sanhattan with 15.7%, in these three sub-markets is 56.9% of the total availability of B + and B office market.

The net absorption of the first quarter of 2020 reached 8,560 sqm.

B+ and B OFFICE MARKET

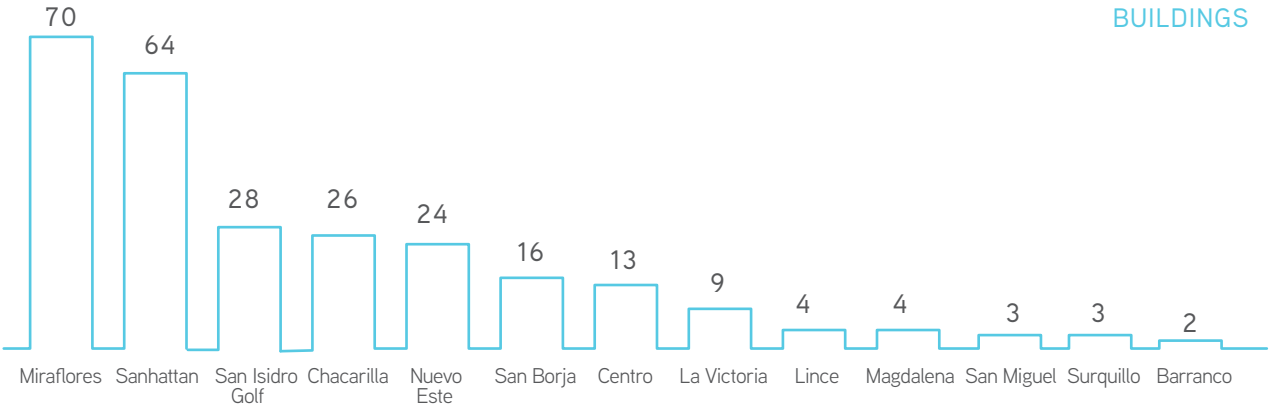
SUBMARKETS / INVENTORY AND VACANCY Q1 2020



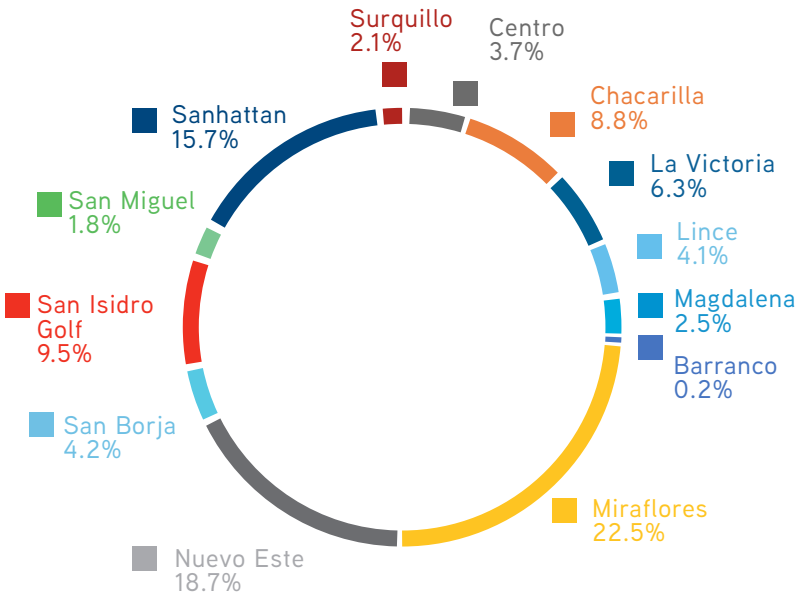
NUMBER OF
B+ and B

266

BUILDINGS



B+ and B VACANCY DISTRIBUTION

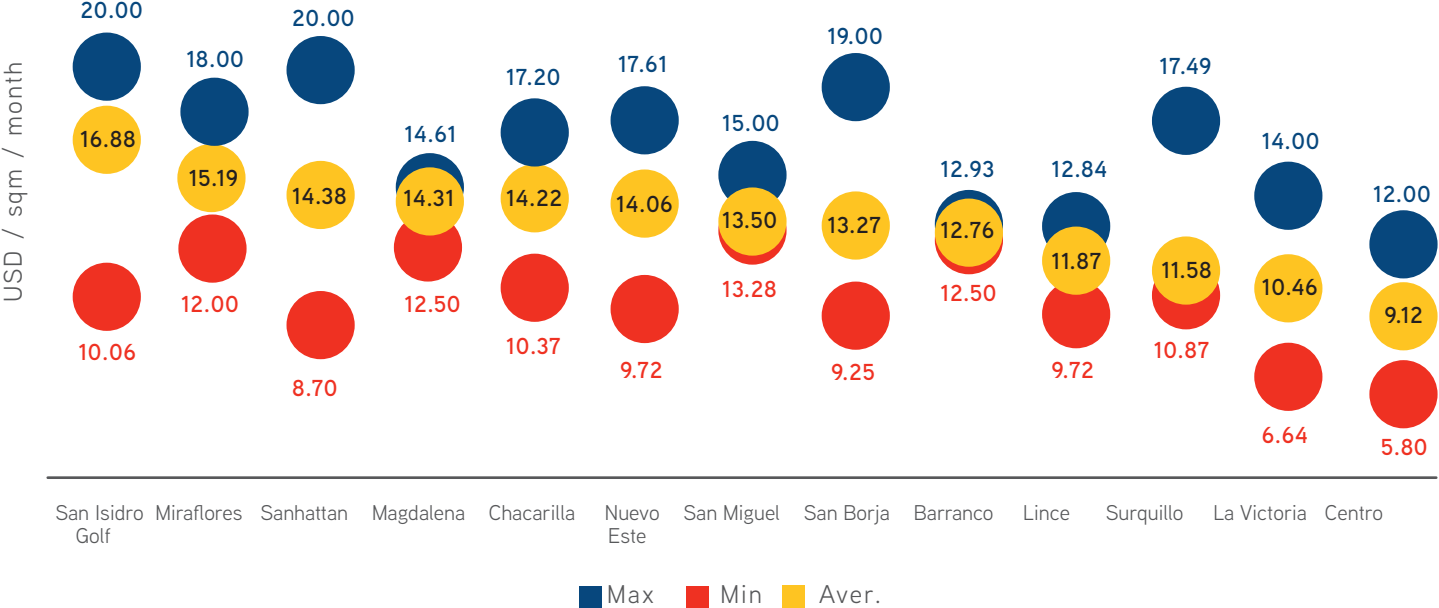


B+ and B MARKET PRICES

In the first quarter of 2020, the average rental price (asking price) for the B + and B office market is USD 13.98 per sqm plus taxes (USD 14.22 at Q4 2019), which represents a negative variation of 1.7 %.

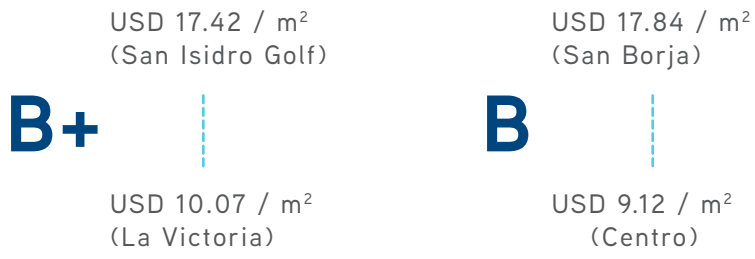


B+ and B MARKET PRICES



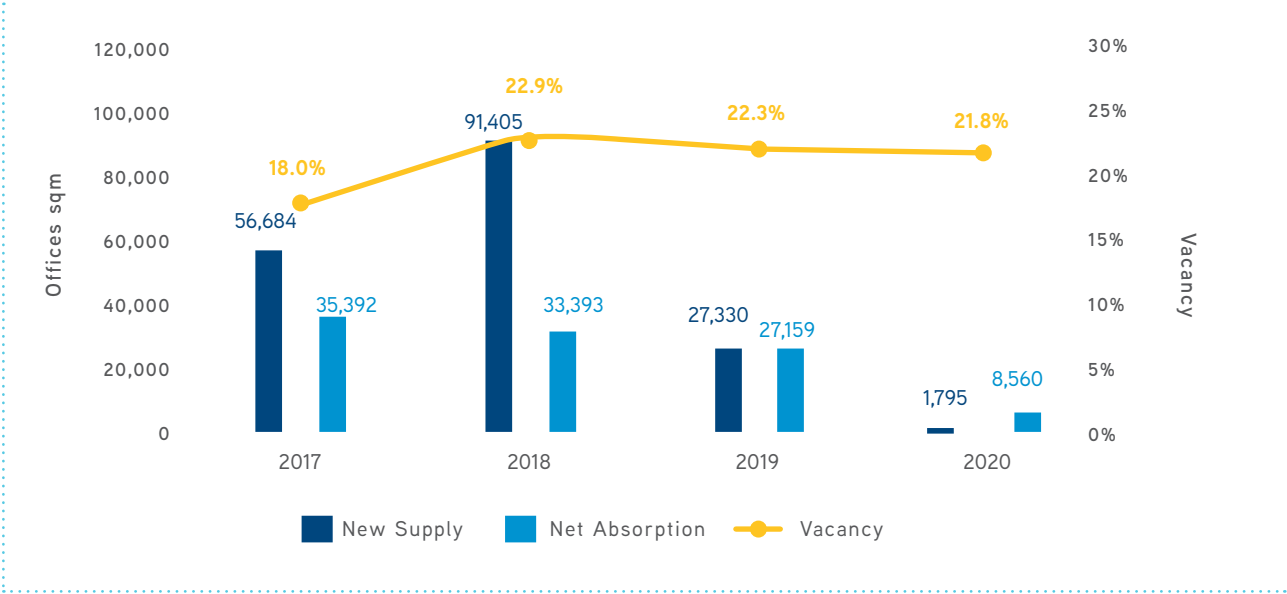
By building category, for B + offices the average rental price (asking price) is located at USD 14.40 per sqm (USD 14.69 per sqm in the previous quarter), with a price range between USD 10.07 per sqm (average) in La Victoria submarket and USD 17.42 per sqm (average) in San Isidro Golf submarket. For B offices, the average rental price (asking price) is USD 12.45 per sqm (USD 12.57 per sqm in the previous quarter), with a price range between USD 9.12 per sqm (average) in Centro submarket and USD 17.84 per sqm (average) in San Borja submarket.

Rent price range / B + and B Offices



For B + and B office spaces for sale with immediate availability shows an average price (list price) of USD 1,888 per sqm, a price that applies to offices in core and shell, without tenant improvements, to which must be added the respective tax. Segmenting this type of space, the average sale price (asking price) for B+ offices is USD 1,914 per sqm and for B offices the average price (asking price) is USD 1,699 per sqm.

New Supply, Net Absorption and Vacancy - B + and B Offices



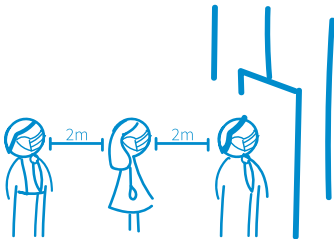
FORECAST

The global pandemic declared by COVID-19 is impacting at all levels of activities and will mark a before and after in the short term regarding interpersonal relations. In this context, the different actors in the corporate office market are designing strategies on how to approach the business and activities after the removal of the quarantine imposed by the authorities.

From the operation of the buildings to remote work and the displacement of collaborators, the strategies that will be considered and carried out will mark a relevant change in the market landscape. Here are some variables related to these changes:



Capacity: It will be necessary to evaluate the reduction of capacity in spaces, both at the level of the entire building and the offices independently. Attending to the indications on social distancing and the need to have staff working together in the same space. The signage and indications in areas of common use should be evaluated to reduce the risk of contagion when moving around these areas (lobby, elevators, directories, dining room, stairs, etc.).



Staff entry: Implementation of protocols for staff entry into buildings; experiences are known in cities where activities are gradually being resumed. Mandatory use of masks and temperature measurement are the main ones when entering. Additionally, it should be evaluated to include indications about the interaction of the personnel with the objects, such as keypads in elevators, stair rails, door handles, turnstiles in the entrances, among others.



Cleaning and disinfection: Implementation of protocols with greater emphasis on cleaning surfaces within the office; as well as the use, by the staff, of products such as alcohol gel, soap and similar products, also adjusting to previously determined protocols.

These variables have been developed based on information from Colliers Asia Pacific office, an area that gradually resumes activities, both daily and work.



Home office: home office applied so far, has allowed a large-scale exercise of what remote work is. By now, many companies must have determined - and others processing - the usability of this system, the pros and cons, and the possibilities of its post-quarantine implementation. This implementation is estimated to be initially partial, in order to comply with what is determined in the capacity analysis.

Property Management takes on special relevance pointing to the restart of activities. Professionally managing post isolation can be really critical in a scenario that requires properly trained teams with experience in the formal management of complex buildings, such as corporate buildings. Could we then observe any price differentiation or some other indicator, depending on the type of administration and type of owner that the buildings have? We have previously reviewed and commented on the behavior of building vacancy, according to the type of property (single, multiple).

The real estate business is long-term, situations such as the one currently undergoing, tests the quality of landlords and tenants, in terms of management and response to short term issues, setting goals and long term support. There are already known intentions and requests for adjustment regarding the rents corresponding to the months of March and April, there are also those who request rent free periods. On the other hand, it's known of office spaces that are still under negotiation, at different levels. While some approaches have made a definitive pause, others continue their process, an atypical process due to the circumstances, contracts waiting to be signed and postponed visits are being observed, among other procedures pending the return of activities.

According to the Schedule of new building entries to the prime office market, by 2020 the start of operations of 4 new buildings is anticipated, with 57,000 m² of useful offices located in the Sanhattan and San Isidro Golf submarkets. In a context of oversupply and with expectations of being on the road to recovery, the COVID-19 pandemic poses an uncertain development in terms of a real approach to the main indicators. Behind vacancies, absorptions, prices, among others, lies the real estate as the main asset and the real estate as an important refuge for investments.

However, if it is to establish scenarios - since the market was heading towards recovery after leaving the oversupply phase - on the conditions that must be met to reach expected levels of vacancy in 2020, we must observe the behavior of both absorption as of the new supply. Taking as a reference target vacancy levels between 14% and 10% and assuming the entry of the new estimated square meters for this year, partially (50%) or completely (100%), we will observe the level of placement necessary to meet these goals, this without losing sight of the fact that in Q1 2020 the absorption was only 1,608 sqm.

With the entry of all prime buildings estimated for 2020:

	PRIME INVENTORY	ABSORPTION	VACANCY %
end 2019	(1) 1'312,649 sqm	113,564 sqm	16.0%
end 2020 <i>scenario 1</i>	(1) +57,000 sqm	73,800 sqm	14.0%
end 2020 <i>scenario 2</i>	(1) +57,000 sqm	100,800 sqm	12.0%
end 2020 <i>scenario 3</i>	(1) +57,000 sqm	128,800 sqm	10.0%

With the entry of half of the prime buildings estimated for 2020:

	PRIME INVENTORY	ABSORPTION	VACANCY %
end 2019	(2) 1'312,649 sqm	113,564 sqm	16.0%
end 2020scenario 1	(2) +20,500 sqm	42,000 sqm	14.0%
end 2020scenario 2	(2) +20,500 sqm	69,000 sqm	12.0%
end 2020scenario 3	(2) +20,500 sqm	96,000 sqm	10.0%

Referring to Mohamed El-Erian, Chief Economic Advisor at Allianz, who comments on the nature of the current crisis, who says that as this crisis is linked to a health issue (virus), typical economic policies will not necessarily work. He also adds that we are ALL going to be wrong and that is why we must be humble.

Thus, depending on the expected scenarios for the entry of new prime office spaces by 2020, although there will be changes in terms of the dynamics of the different markets, opportunities for doing business will not cease to appear, as well as opportunities for new learning. against what the challenge of continuing post pandemic poses. We must closely follow the markets that are already emerging - like Asia - from the hard part of this situation. Meanwhile, here, #StayAtHome,



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