



LOGAN

INSTITUTIONAL VALUE

BOGOTÁ - LIMA - CDMX

REAL ESTATE INVESTMENT REPORT PERU 2018

www.loganvaluation.com

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INTRODUCTION

Logan completed this report during the last half of 2017 and first half of 2018. The purpose of this report is to provide real estate investors and fund managers with a source to benchmark their investment decisions and to provide additional transparency to the investment market. Logan encourages the use of the information herein by participants of the survey.

This report is divided into two sections: Investment Market Overview and Investor Survey. The content of each section was compiled through analyzing publicly available information, and interviews conducted with active investment fund managers and insurance companies. The investor surveys of the Colombian and Peruvian investors are presented to compare and contrast the two markets.

PARTICIPANTS

PERUVIAN FUNDS

- Sura Asset Management
- Faro Capital
- Credicorp Capital
- FIBRA
- Compass
- FIBRA PRIME
- CAPIA
- CORE CAPITAL

INTERNATIONAL FUNDS

- TC Latin America Partners
- Jamestown
- Paladin Realty Partners
- GLL Real Estate
- 7 Bridges

DEVELOPERS

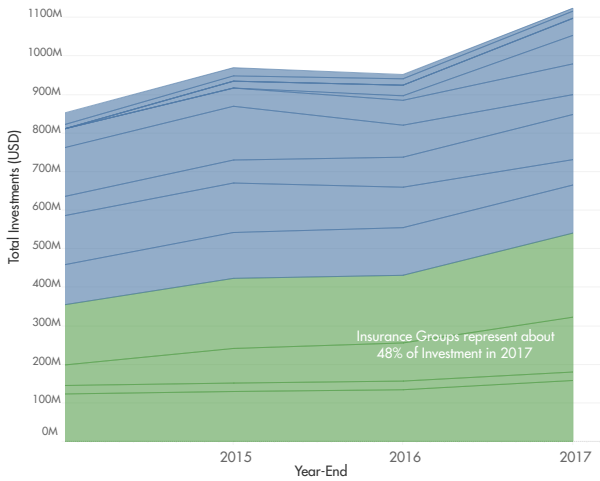
- Grupo Centenario
- LatAm Logistic Properties
- Edifica
- Urbanova

CONSULTANTS

- ABL Partners

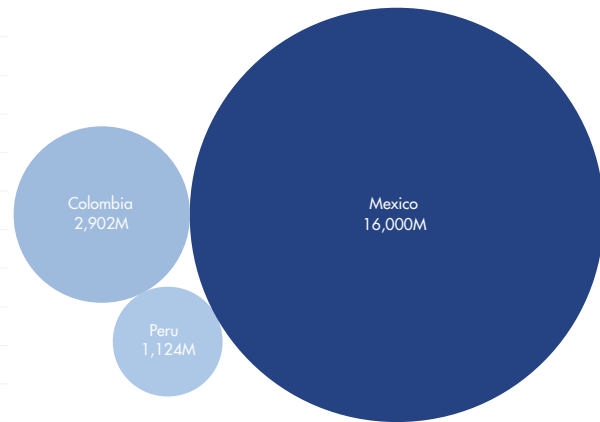


SAFI AND INSURANCE GROUPS (AUM)



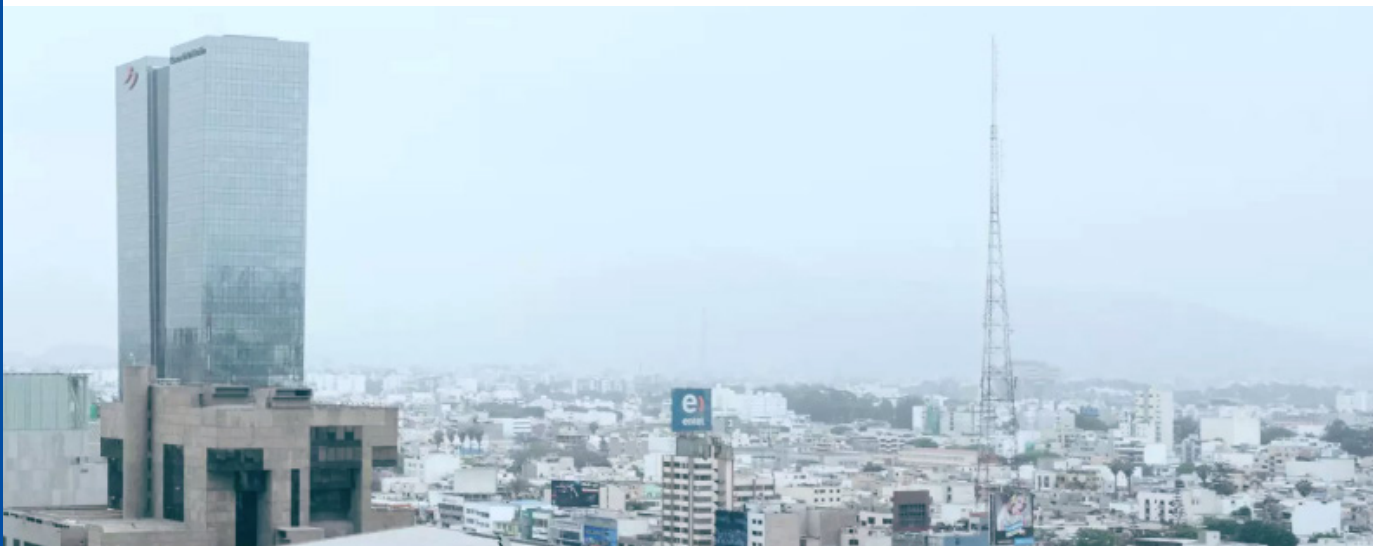
Source: Superintendencia de Mercados y Valores (SMV), Fund Manager Estimates

MARKET CAP (USD) REAL ESTATE FUNDS



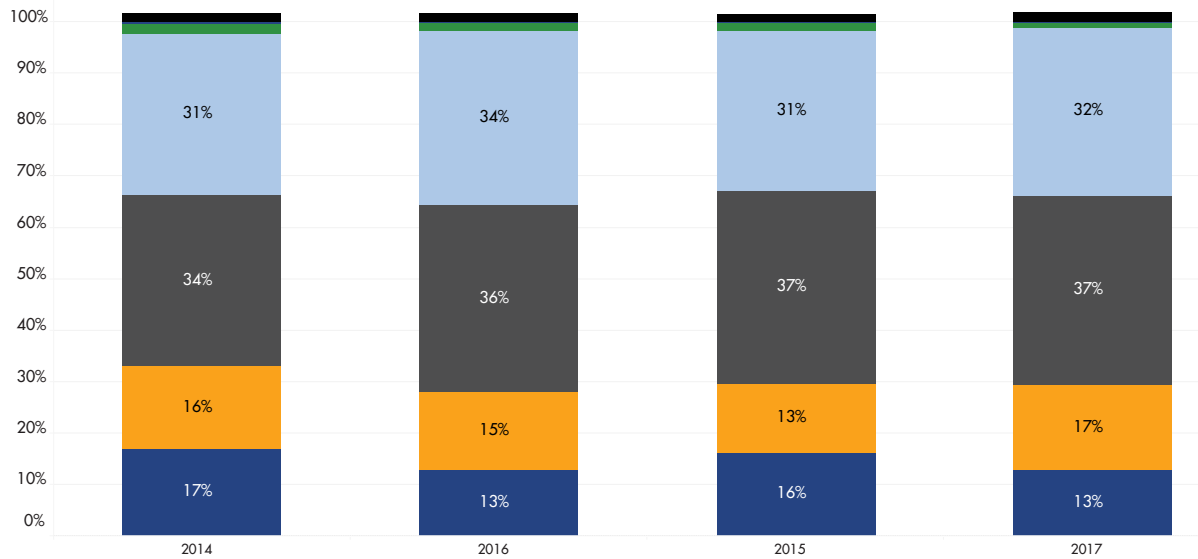
Source: BTG Pactual Research, PEI Report, and Logan Estimates

The size of the investment market in Peru was evaluated through publicly available information of the SAFI's (real estate specific) and the Insurance Companies, and through interviews conducted with each. Although the information is not 100% inclusive of all insurance companies, it does reflect generally the approximate size of assets under management. It is important to note, that insurance companies represent an important part of the investment market and will continue to participate in an important way. In addition, the size of the market relative to other Latin America markets although is relatively small, does appear to have potential to increase in size, stabilized asset focused funds.





MARKET COMPOSITION



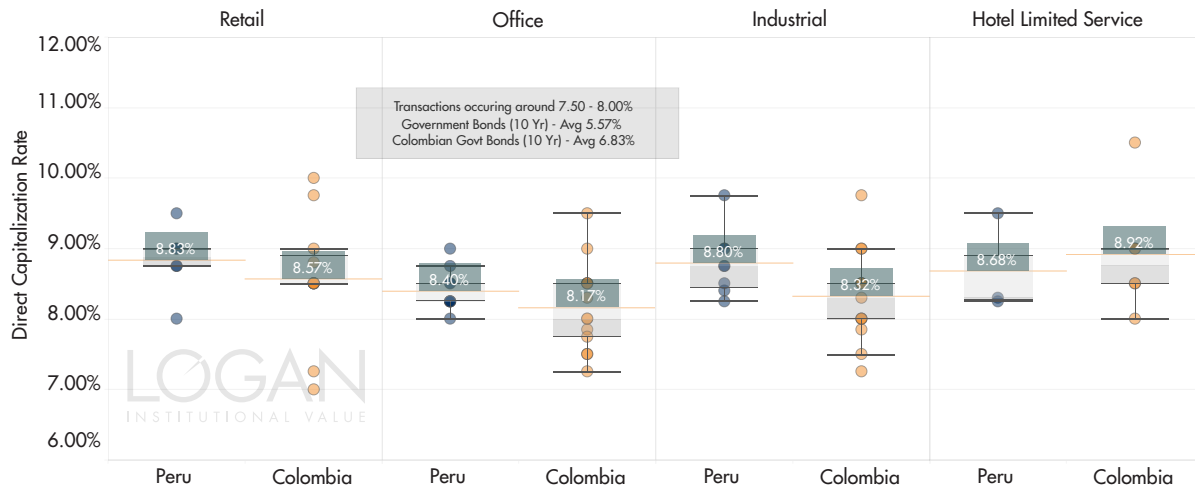
Sector
■ Others
■ Hotel
■ Industrial
■ Land
■ Office
■ Residential
■ Retail

Source: LOGAN estimates, Fund provided information



The composition of the assets under management was estimate by LOGAN to understand the distribution of investment in each sector. Interestingly, there is a lack of investment into the Industrial sector, while a high level of investment in land banking and in residential projects. As the fund managers have been largely focused on development, naturally the investment has flowed into these sectors. As new investment vehicles have been created with new tax benefits and fund shift to a more stabilized asset focus, we expect this composition to shift. The Industrial sector is already receiving more attention and will likely grow in the future, while Office will continue to be the most attractive.

GOING-IN CAPITALIZATION RATES BY SECTOR



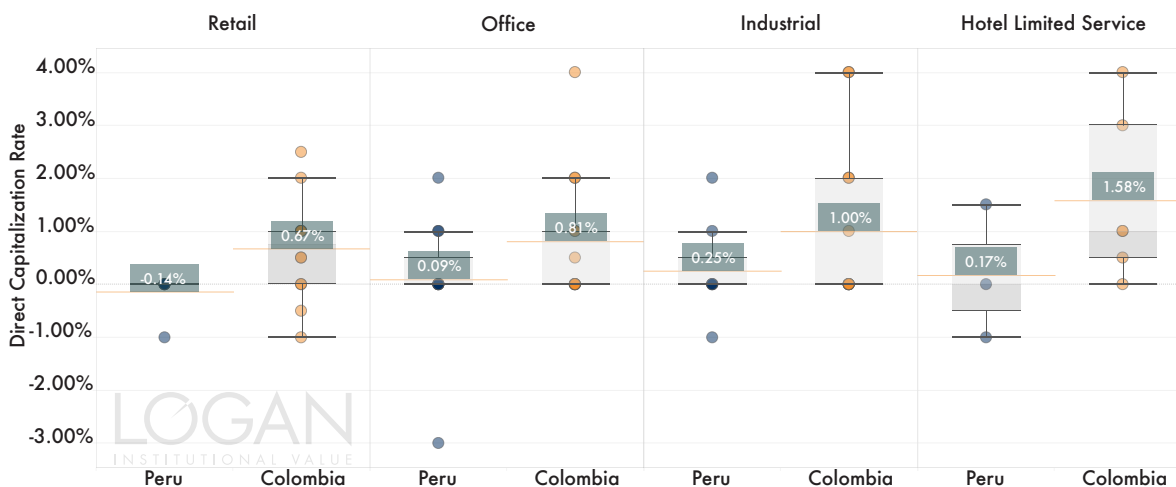
Note: Going-In Capitalization Rates measure the Year 1 NOI of a property over the Sales Price or Value of the property. It essentially reflects the unadjusted profitability of the property without considering the future net income increases projected into the future. This survey assumed a Class A property with a AAA tenant with a medium to long term lease in-place.

Going-in capitalization rates oscillate generally between 8.50% and 9.00% in Peru. Prime office locations with USD leases in-place command high levels of investor demand, and generally lower cap rates below this range. Recent transaction of prime locations is registering cap rates closer to 7.75%-8.00%. The Industrial market has not historically been an active sector for investment, and some uncertainty in cap rates within that sector was noted by investors. The hotel sector is not been an active market for funds, however, the perspective mirrored the cap rates in the other commercial sectors.





5-YEAR AVERAGE REAL RENT GROWTH

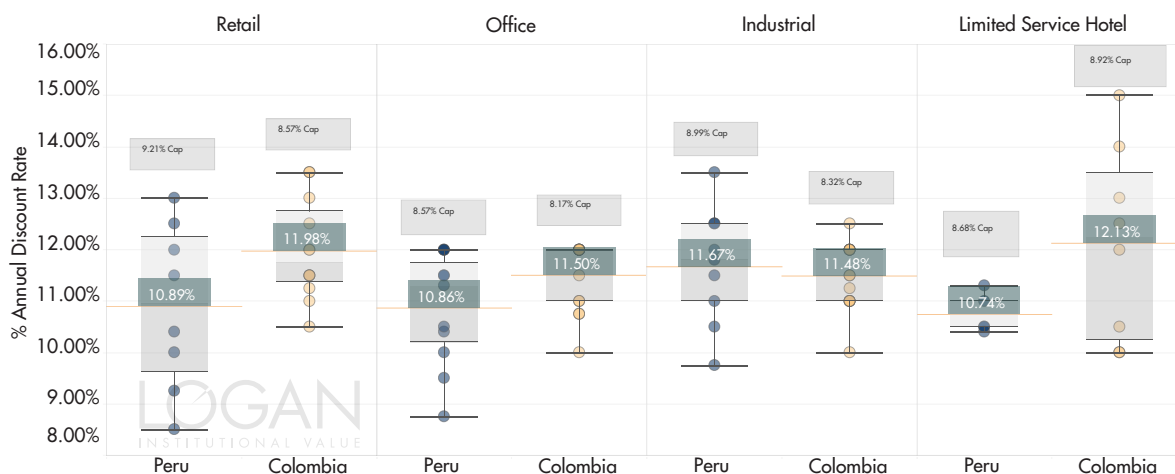


Note: The Rent Growth Survey provides the perspective of those surveyed on the average annual market rent growth expected over the next 5 years. Respondents' answers reflected the spread over IPC (Índice de Precios al Consumidor).

Rent growth expectations in all sectors in Peru were generally flat and inline with inflation. This is largely attributed to contract rents typically growing inline with inflation and/or with caps on annual increases. On the contrary, Colombian lease contracts typically increase by inflation or inflation plus a percentage, presented real rent growth.



STABILIZED ASSET DISCOUNT RATES



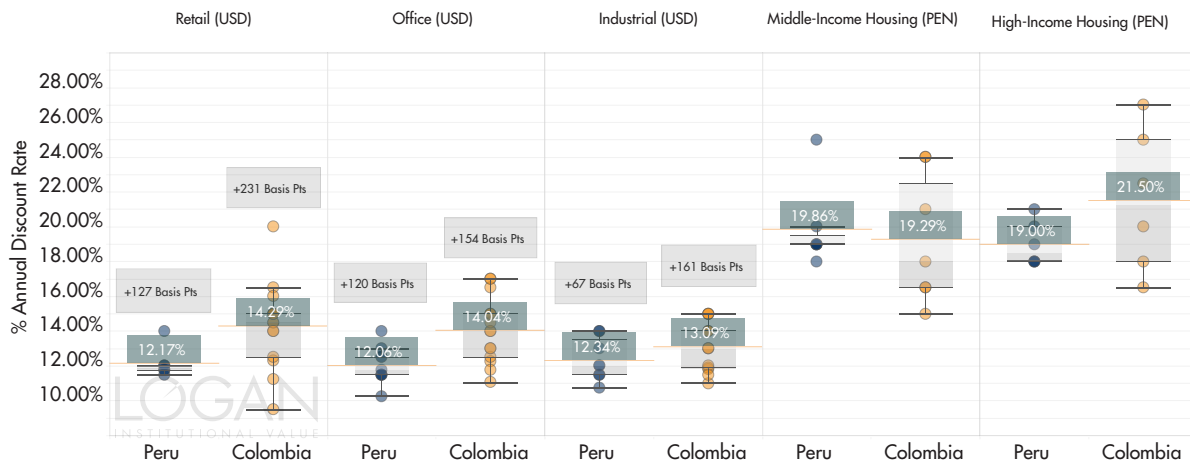
Source: Investment fund managers were the primary respondents for stabilized discount rate survey for Retail, Office, Industrial and Hospitality sectors. The premise is Class A properties leased to AAA tenants with a medium to long-term lease in-place. The properties are assumed built and stabilized at marketvacancy. Hospitality assumes an international branded hotel and a high quality operator.

Stabilized discount rates in the Retail and Office sectors averaged around 10.80%, and generally ranging between 10.00% to 12.00%. This represents on average a spread over cap rates of around 150 - 200 basis points, similar to the inflation/rent growth expected. Investor perceived the Industrial sector as riskier, requiring returns closer to 11.50%. This is likely in part due to the lack of existing institutional quality assets in the sector and lower investment from investment funds. We expect this to change in the short-term as new institutional industrial assets are developed and more attention is shifts into the sector. Generally, the Colombian market requires slightly higher returns and the industrial market is much more developed.





CONSTRUCTION DISCOUNT RATES

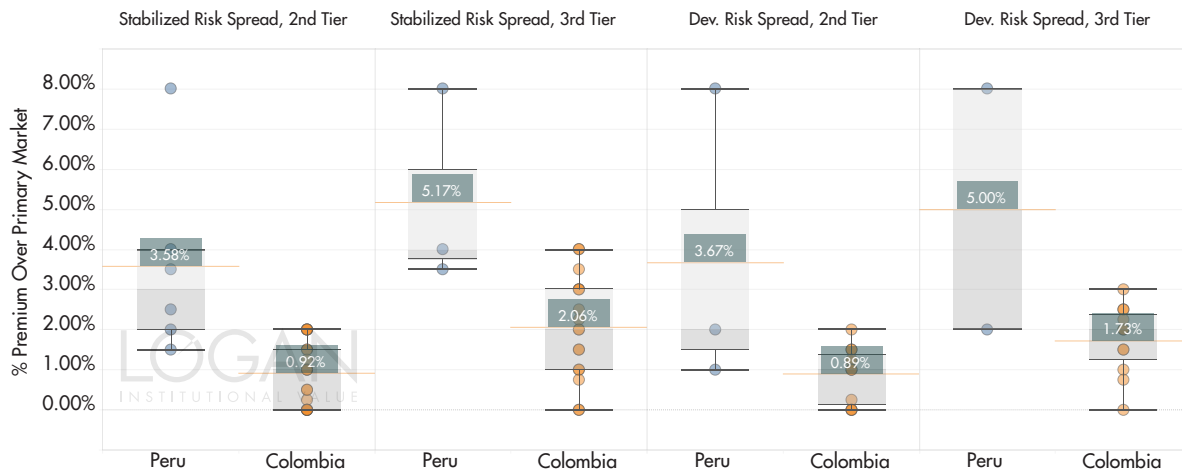


Source: Investment fund managers were surveyed covering the three major commercial sectors Retail, Office and Industrial. This assumes a Class A property with a tenant in-place and limited absorption risk taken. In addition, for-sale residential housing developers, investors, and consultants were surveyed for low-income, middle-income, and high priced residential projects. The premise being that these are zoned parcels of land that require minimal entitlement work before development commences.

Construction discount rate responses presented a minor spread over the stabilized discount rates for the commercial sectors in Peru of around 70-120 basis points. This is a stark contrast to the Colombian market where returns to take construction and/or absorption risk are higher around 150-230 basis points. It is probable, that the required return to take on construction/absorption risk is higher, however, as stabilized asset funds being to take hold and the investment market matures, investors will likely recognize the difference in risk and will require higher returns.



LOCATION RISK PREMIUMS

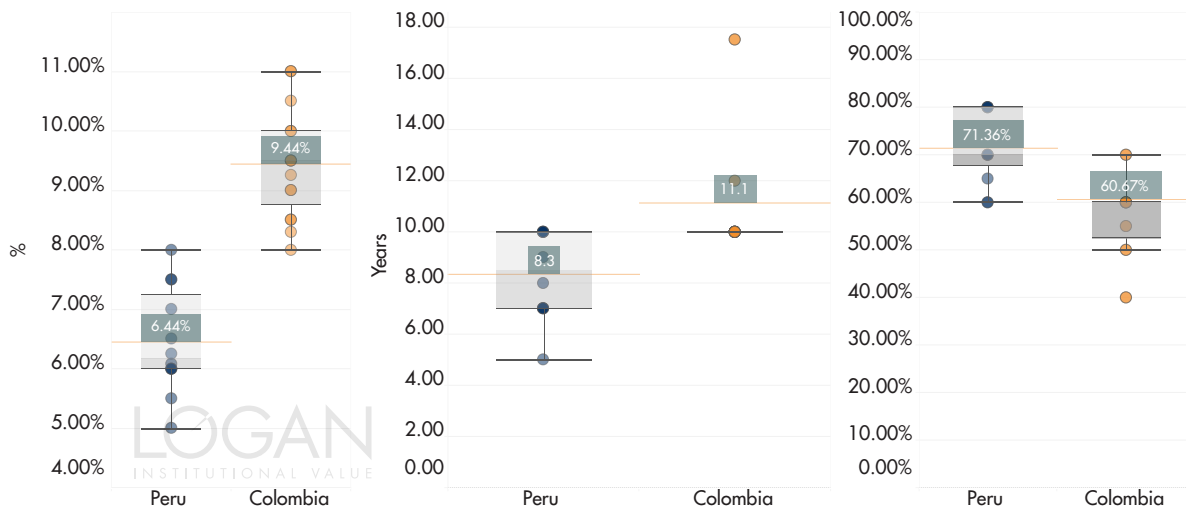


Note: Location Risk Premiums measure the perceived risk of the respondents of secondary and tertiary markets compared to primary markets like Lima. We cover spreads for both stabilized assets and developments with construction risk involved.

The Peru market differs from the Colombian market as there is a large single market that captures most of the investment in real estate. Colombia has two primary markets, with three secondary markets that attract notable investment from investors. For this reason, we see a notable difference in the perception of investors in Peru to enter secondary and tertiary markets. Many investors are solely focused on the Lima market, and the return expectations would be notably higher to invest outside in other provinces.



DEBT TERMS



There is consensus that the interest rates and loan-to-value ratios for permanent financing is more attractive in Peru. No notable change in interest rates is expected in the short-term. The maximum terms are relatively short, and it is unclear if there will be any change in posture from the banks.



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