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# Lima Market Snapshot

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## **Introduction Lima - Peru**

The city of Lima is settled in the coast of the Pacific Ocean, in the center of the country. Even though it was initially founded in the valley of the river Rimac, nowadays it covers broad desert areas and other valleys, this fact makes Lima one of the biggest cities in the world over a desert. It is settled at an altitude of 101 meters over the sea level with an ambient temperature which varies from 12°C in winter to 27°C in summer which turns it into a coastal city with a relatively template climate, it has a relative humidity that oscillates between 80% and 100% throughout the year, so the seasons become more sensitive, especially the cold one.

Lima concentrates more than 75% of the industrial production of the country and it is its financial center. It hosts almost a third part of its total population, so it reflects the big ethnic and cultural diversity of the country. It has approximately 8 million inhabitants. In the decade of the 60s started an internal migration motivated by the search for better life and income conditions. In three decades the population has been more than doubled.

## **Peru Economic Outlook**

Peru has been showing positive indicators of economic growth since 2003. As a result of the positive investment climate and the commitment of the national government to maintain economic stability, Standard & Poor's Peru has upgraded Peru to the investment grade status.

Following the trend of the previous years, the growth in 2008 has been signed by a generalized growth of all the components of the internal demand, in particular of the private consumption and private investment.

Between 2004 and 2007 the economic activity has had elevated and growing rates, going from a growth rate of 5.2% in 2004 to 9.0% in 2007. In 2007, the economic activity registered a growth in real terms of 9.0%, the highest in the last ten years. It is expected that the positive economic performance of the last years will have a positive effect on the labor market performance and will be reflected in the real salaries and the unemployment rate.

The growth of 2007 has had a strong influence of record international prices of minerals and metals.

In spite of the good macroeconomic performance, underemployment and poverty have been kept persistently high. Growth perspectives depend on exports of minerals, textiles, agriculture and for the mega project of natural gas Camisea among other energetic projects.

### **Economic and Demographic Data Summary – Peru (2002-2008)**

	Year						
	2002	2003	2004	2005	2006	2007	2008
<b>Population</b>	25,993,000	26,395,000	26,804,000	27,219,000	27,640,000	28,068,000 <sup>1</sup>	28,503,000 <sup>1</sup>
<b>GDP real (millnes, current dollars)</b>	56,756	61,342	69,735	79,485	93,027	109,069	125,828 <sup>1</sup>
<b>GDP real (Change%)</b>	5.0%	4.0%	5.1%	6.7%	7.6%	9.0%	7.0% <sup>1</sup>
<b>GDP per capita (current dollars)</b>	2,184	2,324	2,602	2,920	3,366	3,886 <sup>1</sup>	4,415 <sup>1</sup>
<b>Average Consumer Prices (Change %)</b>	0.2%	2.3%	3.3%	1.6%	2.0%	1.8%	4.2% <sup>1</sup>
<b>Exchange Rate</b>	3.52	3.48	3.41	3.30	3.27	3.13	2.93

<sup>1</sup> Estimates IMF

Source: World Economic Outlook Database, April 2008 (IMF)

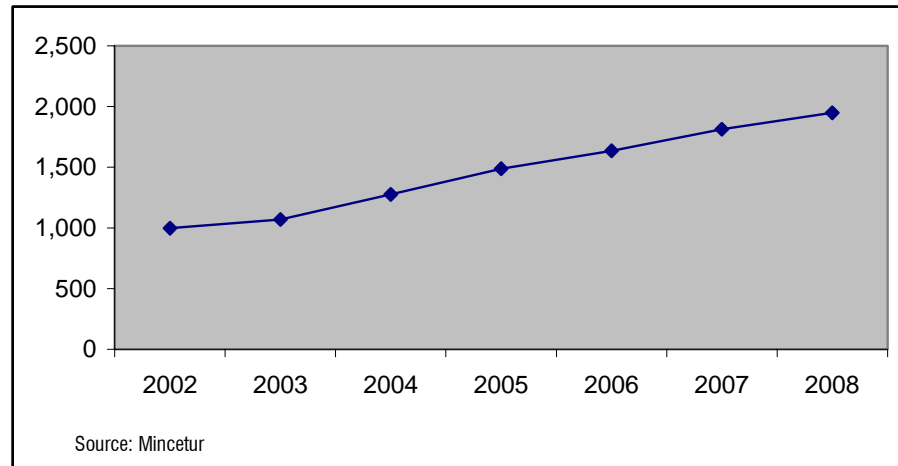
## **Tourism in Peru**

Tourism industry in Peru is quite broad, since there are a variety of options for the thousands of visitors received annually. Peru has an important hotel offer and a well structured connectivity in air and land transportation.

Peruvian tourism industry has had an exceptional growth period between years 2002 and 2008. In the beginning of this period, Peru received almost a million tourists in 2002; in 2008 this number was almost doubled.

Following the data collected by the Ministry of Foreign Trade and Tourism (MINCETUR) during year 2008 there has been a total affluence of 1,948,660 international tourists in the country, with a growth of 7.52% with respect to the previous year.

Even though in 2008, the growth ratio of tourist arrivals to Peru lessens compared to the ratio of 2007, the ratio is still very positive, given the adverse context. International arrivals in the world have risen at a ratio of 1.8% and in the region the ratio was of 5.90%, which were both exceeded by the Peruvian growth ratio. The following tables set forth the evolution of non-resident tourist arrivals.

**Non-Resident Tourist Arrivals in Peru (2002-2008)****Non-Resident Arrivals in Peru (2008-2009)**

	2008	2009
January	169,602	170,262
February	174,464	170,760
March	158,876	161,612
April	147,678	156,539
May	155,175	
June	165,287	
July	198,686	
August	177,861	
September	156,322	
October	152,640	
November	134,510	
December	157,462	
	1,948,563	659,173
<b>YTD Jan-Apr 08 vs 09</b>		<b>-1.3%</b>

Source: Mincetur

**Tourism in Lima**

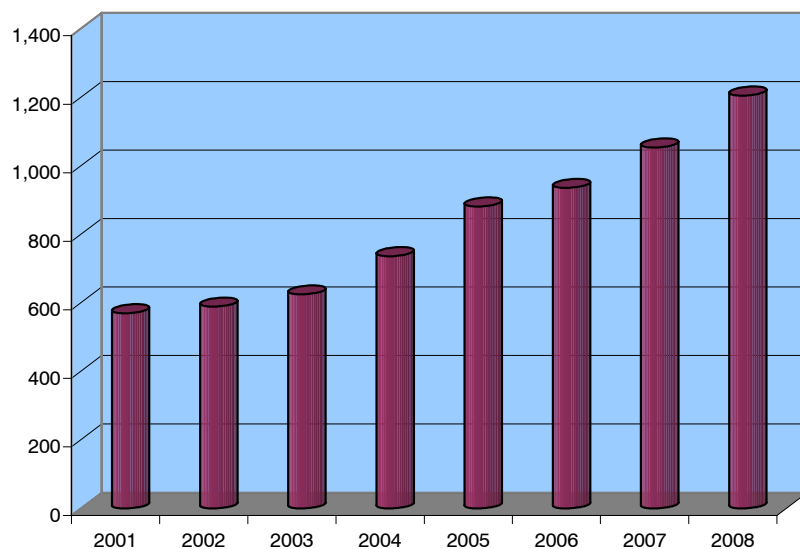
Lima is attractive for leisure tourism as it is the entrance to Peru tourist destinations, especially Cuzco, Machu Picchu and The Sacred Valley. This tourist circuit has had a great development in the recent years and seems to continue with the same trend. Tourists leading to Cuzco, Machu Picchu, The Sacred Valley or other tourist destinations around the country, often spend some days in Lima. Moreover, the city itself with its multicultural and multiethnic heritage offers an interesting array of tourist attractions such as colonial architecture, monuments, museums and cultural life.

Lima International Airport “Jorge Chávez”, has direct flights and connections with the main cities around the world. The following chart shows the evolution of non-resident arrivals.

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**Non-Resident Tourist Arrivals at Jorge Chavez International Airport (2001-2008)**

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Source: Mincetur

In the city of Lima, leisure tourism is an important demand driver for local hotels. This kind of demand is typically stronger during long weekends and holiday periods. Tourist attractions include several historical monuments and entertaining activities.

Each district has special attraction for tourists:

- **Historical Downtown:** It preserves a colonial architecture and has been declared World Heritage Site by UNESCO in 1991.
- **District of Miraflores:** There are big and modern commercial areas and beautiful green areas. There are also historic sites such as Huaca Pucllana and Museo Amano.
- **District of San Isidro:** It is depicted by green areas and exclusive residential neighborhoods. In the recent years, it has become an important tourist and business center. In addition, in this district is located the historic site of Huaca Huallamarca.

Other significant tourist attraction is the Peruvian cuisine, composed by a wide variety of typical food which reflects its diverse ethnical and cultural origins. There are many gourmet restaurants in the city of Lima, especially in Districts of Barranco, Miraflores and San Isidro. Also, public and religious holidays are interesting for tourists, since several activities are scheduled to celebrate them.

The City of Lima receives approximately 5 cruises per year. It is still a little amount compared to other cities, though, it is important to take into account that many cruise passengers use to visit the city and other tourist destinations of the country. This kind of tourism has a potential of development, while Lima continues to promote its tourist attractions and create more activities for leisure tourism; it may generate more cruise traffic which would bring more passengers who may demand luxury services.

Corporate tourism represents around 70% to 80% of the total demand of luxury hotels in Lima. The Meeting and Conventions market is still young with a high potential to be developed. The meeting spaces for conventions or international conferences are still limited to hotels and still don't have enough meters to offer, and are highly demanded.

The following chart shows a sample of the branded Luxury and Upper Upscale Hotels in Lima.

### Supply Luxury - Upper Upscale Hotels

<b>Sample of Luxury and Upper Upscale Hotels in Lima</b>			
	<b>Rooms</b>	<b>Opening Year</b>	<b>Category</b>
Sonesta Hotel Posada Del Inca El Olivar Lima	134	1992	Upper Upscale Class
Swissotel Lima	244	1996	Upper Upscale Class
Summit Hotel Los Delfines	206	1997	Upper Upscale Class
Marriott JW Hotel Lima	300	2000	Upper Upscale Class
Miraflores Park Hotel	81	2001	Luxury Class
Hotel Sofitel Royal Park Lima	81	2001	Upper Upscale Class

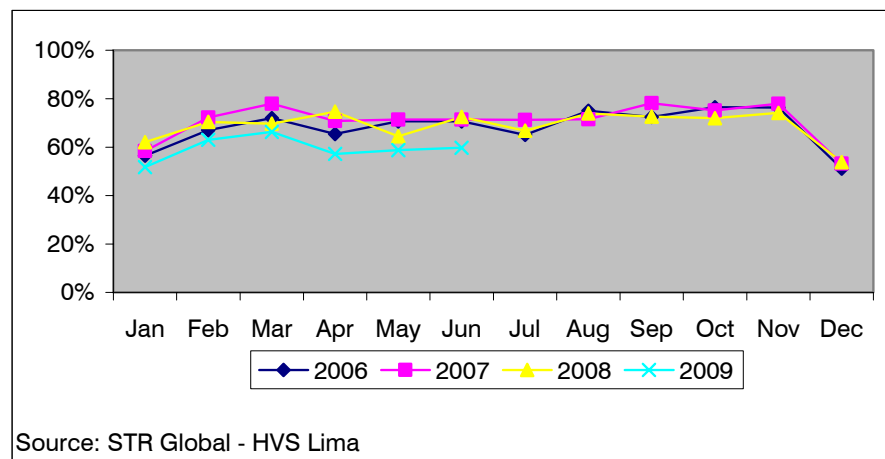
Source: STR Global - HVS Lima

The luxury hotel market in Lima is still young. Orient-Express leads this segment with an independent property named Country Club Lima Hotel. Consequently, JW Marriot Hotel Lima, being a typical Upper Upscale brand in other destinations, enters the luxury segment, holding an excellent location in Miraflores district with a desired sea view. It is worth noticing that in the hotel market as a whole, local groups play a vital role. Hoteles Libertador, Casa Andina and Inkaterra are well-known Peruvian brands that hold properties in key destinations all over the country. Some of them are still expanding; such is the case of Hoteles Libertador that will be opening the Westin Libertador Lima by September 2010.

In the recent years, due to the good economic scenario of the country and the increasing rates of tourism activity, there has been a significant growth of the market in terms of ADR and occupancy. In the first semester of 2009, the international crisis began to impact on the occupancy levels.

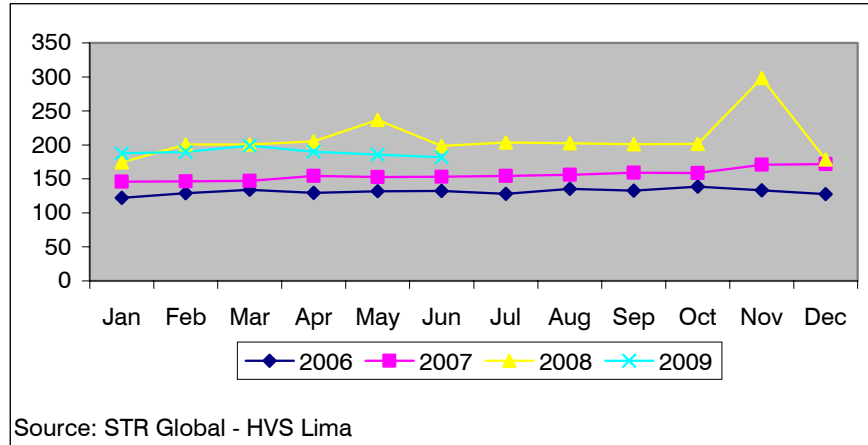
Occupancy levels in Lima from 2006 to 2008 have been somehow stable around 68%. In 2009, however, occupancy has suffered a considerable decline with an average of 59%.

#### Occupancy - Luxury and Upper Upscale Hotels in Lima



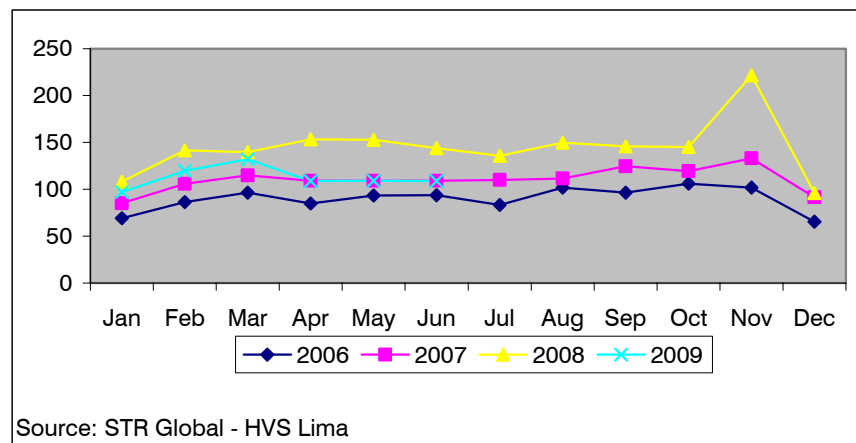
The average rate (ADR) of hotels in Lima has been growing from 2006 to 2007. In 2008 ADR jumped to record values reaching an average annual ADR of US\$ 208. During the first quarter of 2009, ADR could remain in the same values of 2008, showing a small decrease in the second quarter but still being above values of 2007.

**Average Daily Rate - Luxury and Upper Upscale Hotels in Lima (in US\$)**



As a result of the evolution of the occupancy and ADR in the Luxury and Upper Upscale Hotels in Lima, the following chart shows the evolution of the RevPar in this market. After the record values reached in 2008 and despite the effects of international crisis, Lima hotels show little decrease in RevPar for the first semester of 2009 compared to 2008.

**RevPar - Luxury and Upper Upscale Hotels in Lima (in US\$)**



**Development and Initiatives**

A considerable number of projects are being studied for the city of Lima. The first project in the pipeline is the Westin Libertador Lima, scheduled to open in September 2010 in the neighborhood of San Isidro. Westin Libertador Lima will be the first hotel of this brand in South America. The hotel will feature 301 rooms and will become the tallest building in Peru. It will also have a Convention Center with 10 meeting rooms and capacity for up to 2,000 people.



It is worth mention that Larcomar Shopping Center is developing a hotel project within its' property, with approximately 300 rooms. This hotel will be placed in the neighborhood of Miraflores in a spot with a privileged view to the Pacific Ocean due to the location of the construction over the wall of a cliff and under the street level.

Also there is another mixed-use project under analysis in the neighborhood of San Isidro. The project will include a retail area, offices and a luxury hotel.

The development of new projects in other cities of Peru may also impact on the tourism in Lima, since it is the gate of entrance to the country. Such cities include Cuzco, Aguas Calientes (Machu Picchu) and the Sacred Valley, among others.

## **Conclusion**

Peru is a country that has been showing positive indicators of economic growth since 2003. Lima, as its capital city, reflects the impact of this economic development. The tourist sector has demonstrated very elevated rates of growth and there are clear signs that this trend will continue in the following years. Also, as shown in the charts above, hotels have been rising in performance in the last two years reaching record values, and during 2009 they have not been suffering the impact of global economic crisis as much as other hotel markets in the region. Despite this, it is important to mention that due to the global crisis, economic growth rate for the months to come might be lower or even negative comparing to the results achieved during 2007 and 2008. However, new hotels are being built in the city and in other tourist destinations that would most probably track tourists to the city of Lima, since it is the main entrance to the country.

*No investment decision should be made based on the information in this survey. For further advice please contact the authors.*

## About our Team

HVS has a team of experts that conducts our operations in Latin America. The team benefits from international and local cultural backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Latin America and a broad exposure to international hotel markets. Over the last nine years, the team has advised on more than 200 hotels or projects in the region for hotel owners, lenders, investors and operators. HVS has advised on more than US\$ 4 billion worth of hotel real estate in the region.

## About the Authors



**Graciana García Iribarne**, Managing Director of HVS Lima, Managing Director of HVS Buenos Aires, Vice President of SAHIC. Graciana's career started in 1992 at the Caesar Park Buenos Aires (Westin Hotel). In 1998, she traveled to Europe and worked at the Caux Palace (Montreaux) adding to her knowledge the recognized expertise and excellence of the Swiss hotel school. Back in Argentina, she worked for renowned hotel chains, such as Marriott International and Starwood Hotels & Resorts. In year 2002, she joined HVS, and in March 2008, following her successful leadership of diverse development projects in Argentina, Chile, Peru, Colombia and Uruguay, Graciana became the Managing Director of HVS Buenos Aires. With the recent office opening in Peru, Graciana expanded her role also as the Managing Director of HVS Lima.



**Arturo García Rosa**, Senior Partner of HVS Global Hospitality Services, President of HVS Argentina, President of HVS Peru, and President of SAHIC. Arturo has been working in the domestic and international hospitality industry for more than 30 years. His wide range of publications and papers serve as testimony of his continuous update of his broad knowledge and overall vision of the industry. For 11 years he was Managing Director of the Alvear Palace Hotel, leading the project that allowed Buenos Aires to recover one of its finest hotels, creating the first national deluxe management. He is the founder of Destino Argentina and the author of the Argentina 2010 Tourism Plan. His professional activity is nowadays focused on the consolidation of HVS presence in the main South American markets and on the expansion to new Latin American markets. The South American Hotel & Tourism Investment Conference (SAHIC) is aligned with this path, as well as some other major projects in progress today, including the recent opening of the HVS Lima office, in Peru.

For further information, please contact one of the authors.

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## About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980 by President and CEO Steve Rushmore, MAI, FRICS, CHA, the company offers a comprehensive scope of services and specialized industry expertise to help you enhance the economic returns and value of your hospitality assets.

Steve began his career in the 1970s as a consultant in the hospitality division of a prominent New York City real estate firm. Through that experience, Rushmore noted the limited body of knowledge available to assess the value of hotels and motels, taking into consideration both the business and real estate components. Rushmore's first book, *The Valuation of Hotels and Motels*, quickly became the definitive work on the subject, and soon after, HVS was born. The HVS method of providing an economic study and appraisal for hotels and motels immediately became, and continues to be, the industry standard.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry:

Consulting & Valuation  
Investment Banking  
Asset Management & Advisory  
Hotel Management  
Hotel Parking Consulting  
Executive Search  
Food & Beverage Services  
Gaming Services

Convention, Sports & Entertainment Facilities  
Interior Design  
Sales & Marketing Services  
Shared Ownership Services  
Golf Services  
Eco Services  
Risk Management

Our clients include prominent hotel owners, lending institutions, international hotel companies, management entities, governmental agencies, and law and accounting firms from North America, Europe, Asia, Latin America, and the Caribbean. Our principals literally 'wrote the book' on hospitality consulting, authoring numerous authoritative texts and hundreds of articles. HVS principals are regarded as the leading professionals in their respective regions of the globe. We are



client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost-efficient manner. HVS employees continue to be industry leaders, consistently generating a wide variety of articles, studies, and publications on all aspects of the hospitality industry.

HVS is the industry's primary source of hotel ownership data. Our 2,000+ assignments each year keep us at the forefront of trends and knowledge regarding information on financial operating results, management contracts, franchise agreements, compensation programs, financing structures, and transactions. With access to our industry intelligence and data, you will have the most timely information and the best tools available to make critical decisions about your hospitality assets.

For further information regarding our expertise and specifics about our services, please visit [www.hvs.com](http://www.hvs.com).