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# PERUVIAN REAL ESTATE

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As multinational companies view the world for expansion opportunities, they include the South American continent in their analyses. Peru, a larger country of the northwest sector of the huge continent, attracts attention to its untapped natural and human resources and its vestiges of earlier civilizations. Continued foreign investment is encouraged by the current privatization program of President Alberto Fujimori's government. As he seeks a third term as President, he is promoting foreign and domestic investment in a variety of businesses and industries as he continues to alleviate the paucity of needed infrastructure and social services.

A review of some real estate aspects of Peru might start with the construction and development of real property by several early Andean cultures. One of earlier civilizations developed the inland mountain top religious center called Macchu Picchu that is visited by millions of international tourists each year. This prominent world attraction - whose properties are preserved in stone - is being privatized as part of the overall Peruvian government debt-reduction, budget enhancement program.



## Architecture, Construction, and Building Materials

In contrast to the stone construction of the fourteenth-century Inca civilization shrine, the rural homes of Peruvians tend to be built of adobe brick and long-lasting tile roofs. The indigenous red clay and straw from the cultivated fields form the basic ingredients for the red brick and roofing tiles.

Urban structures are generally one- and two-story buildings with relatively few newer high-rise hotel and office buildings in the center cities. Steel and concrete are particularly used in the newer center of the capital city Lima, for example. In the Colonial center of Lima two- and three-story street-front balconied structures predominate among the government, business, and residential buildings. The pastel-painted buildings may remind the observer of similar center city pastel buildings of St. Petersburg in Russia, that also represents adherence to earlier European architectural provisions and the developing nature of the Russian and Peruvian economies and

societies. Recently the deep recession of Peru has been exemplified by the inactive steel construction cranes at the sites of partially completed modern downtown buildings and the abandonment of prepared foundations for new high-rise buildings.

Wood for lumber is abundantly available, but transportation for building products and raw materials from the foothills and Andean mountains is limited due to the less advanced transportation system. Aggregate for the making of concrete is similarly available from the foothills and mountains, but

employment centers are often observed, not just in Peru, but in developing countries and regions that include Mexico, other parts of Latin America, and African and South Asian cities in general. The lower income individuals seek greater employment opportunities and higher standards of life that major urban areas such as Lima, Peru offer. Therefore, Peru has a large, untapped work force. At present the unemployment rate of 50 to 60 percent encourages a permanence of living accommodations of a large portion of the Peruvian total population within the barrios of suburban Peru. The middle- and higher-income groups comprise only a small proportion of the total population. Under these circumstances, three widely recognized terrorist groups - led by the Shining Path, who represent various portions of the large low-income group - tend to persist even though their activities have been more recently contained by the current Fujimori government.

## Property Security Provisions and Their Need

Personal and property security is a principal social focus in Peru as well as other developing countries of the world. Personal security is threatened by the prevalence of so many unemployed persons in the society who seek cash and other assets that are readily converted to cash for their subsistence. Property security is an associated problem. Property and personal security, of course, is not just a major problem of developing countries, but that of economically advanced countries.

Security precautions may be noted throughout Peru - in rural areas as well as urban areas. Gated and walled properties are outfitted with metal-barred external doors, barbed wire atop fenced patios of center city homes, and occasionally electrically charged wiring atop fenced enclosures. Street lighting may be provided in more affluent center city residential areas such as Cuzco, the center of the earlier Inca empire, that lasted approximately 150 years. Many more



affluent citizens prefer living in high-rise residential buildings over low-rise, less secure residential buildings. For the same security reason, they may prefer working in high-rise office buildings.

## Basic Infrastructure

Future Peruvian real estate development and investment need to take into account the overall inadequacy of safe water and sanitation. According to the World Development Report 1996, compiled by the World Bank, in 1993, only 58 percent of the Peruvian population had access to safe water; only 45 percent existed within sanitary conditions. Energy use per capita was one fifth as much as that of Mexico; both developing countries represent low-energy-using countries on a per capita basis due to their disproportionately large low-income groups. Peru, unlike Mexico, has a relatively low supply of generated and distributed electricity. Telecommunication services, at present on a relatively low level of capacity - like electrical service - represent an area of business opportunity, particularly in mobile phone services, for both foreign and domestic companies.

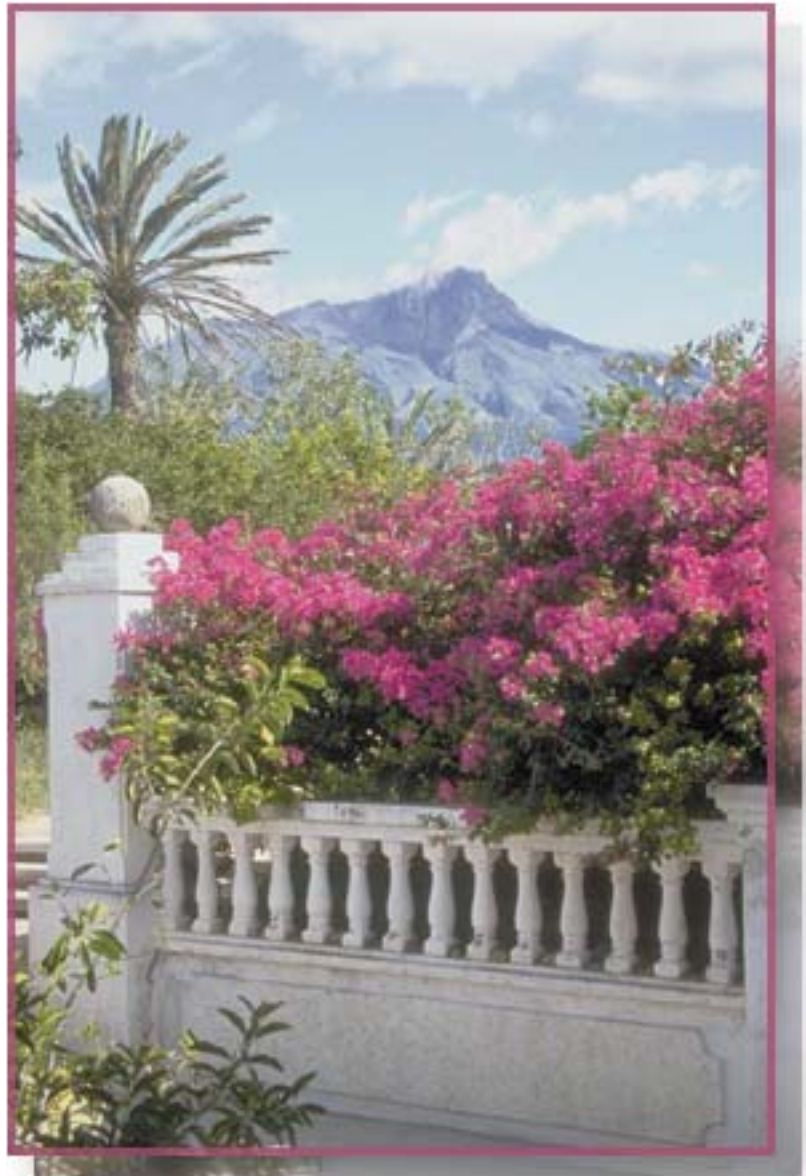
Office building developers, contractors, and investors may note that the gross domestic product of services represented 56 percent of total Gross Domestic Product (often abbreviated "GDP") in the mid-1990s, according to the World Bank. Manufacturing produced only 23 percent of the Peruvian GDP; industry represented 37 percent of GDP. In comparison with Mexico where the

privatization of previous state-owned companies should provide more government finance for increased social services.

## Title Registration of Properties and Businesses

As the privatization program for Peruvian state-owned business and industry was launched in the late 1980s, the inadequacy of property and business title registration and the enforceability of private property rights became evident. The Fujimori government noted results from Peruvian citizen polls that showed a negative public reaction to the proposed privatization program. The public thought that "privatization" meant handing over national Peruvian assets to foreigners and the loss of the associated sovereign rights. In order to change this public opinion, the government saw fit to formalize the ownership titles of some properties and businesses and to establish some enforcement mechanisms for protection of private property rights. As a result of this property and business title registration, the value of the country's assets increased in value as production increased, many new jobs were created, and tax revenue increased. Now that more Peruvians are enjoying the benefits of protected property rights the privatization of public services is accepted by more Peruvian citizens. They are more amenable to foreign investment in general.

if an owners title to a property is not legally registered and recognized, the property cannot be used as collateral for loans.



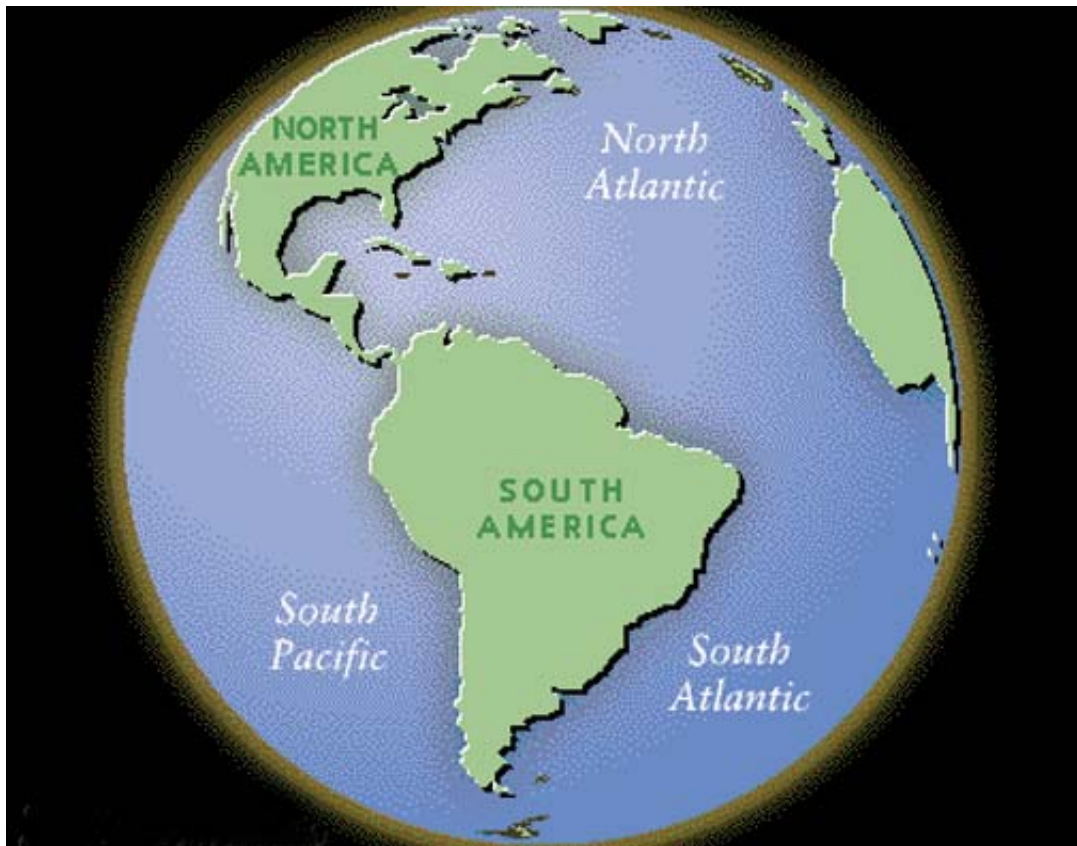
## Opportunities for Increased Mortgage Financing

The legally recognized property ownership led to financing for expanded property and business investment and, therefore, an increase in the national wealth. The informal ownership of large amounts of Peruvian property with no legal registration or recognition has long meant lack of opportunities for the financing of property and business where property could be given as collateral for loans. Generally,

## A History of Peruvian Title Registration

Some 70 percent of the private assets - including properties and businesses - of citizens of less developed countries are not documented, registered or protected by law, according to Hernando de Soto, president of ILD, an independent Peruvian think tank and consulting firm. This relationship may generally apply to earlier years in Peru. Mr. de Soto concludes that in countries with a low level of per capita

# SOUTH AMERICA



## MORE ABOUT PERU

•Peru's National Culture Institute has been considering a plan by a French company to illuminate the ruins at Machu Picchu using solar-powered lights.

•The mummy of a young Inca girl-found in 1995 on the side of Ampato, a 20,700-ft/6,300-m volcano-had lain frozen for five centuries before melting ice sent her plummeting down the mountain. Probably left there as a sacrificial offering to the gods, Juanita, as she was named, was the first female Inca mummy discovered on a mountaintop in the Andes.

•The water of Lake Titicaca is a constant, bone-chilling 50 F/10 C.

•Thor Heyerdahl, in his voyage of the Ra (a reed ship sailed across the Atlantic to demonstrate the possibility of the ancient Egyptian discovery of America), had the help of Titicaca's Uros Indians. They are the only people in the world with the requisite reed-working and boat-building skills. The explorer, who lives part of the year in Peru, also believes that Peruvians were the first people to settle Polynesia.

•More than 8 million Amerindians live in Peru.

•The traditional use of the coca leaf dates back to precolonial days and has various religious and social meanings. Inca legend has it that the son of their sun god delivered the leaf to them when he magically appeared on the Isla de Sol in Lake Titicaca holding the leaf. Chewing the coca leaf was once a privilege for Inca royalty. However, the Spaniards, realizing the leaf's physical effects, began to cultivate it and used it to stimulate their workers to labor longer. Today, the coca leaf is an extremely important cash crop. Peru's Upper Huallaga Valley is the world's largest source of coca leaf.

•In 1995, border skirmishes took place between Ecuador and Peru along the 48 mi/78 km of remote

jungle territory both sides have claimed for the past 50 years. Fighting ended a few months later. The main reason for the fighting seems to have been to distract attention from both countries' economic problems.

•If you are uncertain of how to pronounce the Inca site Sacsahuaman, located near Cuzco, just say "sexy woman".

•Mario Vargas Llosa, the Peruvian novelist, moved to Barcelona and became a citizen of Spain after losing the 1990 presidential election. Spain has honored him with its most important literary award, the Cervantes Prize.

•The winner of the 1990 presidential election, Alberto Fujimori, who is of Japanese ancestry, was derided at first and called El Chinito (the Little Chinaman) by Peruvians. After Fujimori demonstrated his toughness by shutting down Congress and capturing Abimael Guzman, leader of the Shining Path, the Peruvian president was upgraded to El Chino (the Chinese).

•In Cuzco, thieves broke into the main museum and stole dozens of gold and

silver Inca artifacts. The thieves were caught, but the objects had already been melted down.

•Lima was named after a Spanish misunderstanding of the local pronunciation of the Rimac River.

•The great Amazon rain forest covers 60 percent of Peru.

•During the 1993 census, all Peruvians were required to stay in their homes for 24 hours so the count would be accurate.

•Millions of years ago, the Amazon drained into the Pacific, through what is now Peru. Eons of continental drift and collision raised the Andes and reversed the course of the mighty river.

•According to legend, the colors of Peru's flag (three vertical bands of red-white-red) were chosen





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