

1. Summary

Construction stands out from other sectors of the economy, with an annual rate of growth of 2.4%. This trend could reverse due to lower activity in building construction and reduced budgets for civil works. As forecast in the last number of **Mexico Real Estate Outlook**, building construction is the branch with the greatest activity in the sector, despite showing a lower growth rate than in previous half-years. On the other hand civil works were down by 3.7%, contrary to previous forecasts based on the National Infrastructure Programme. The Federal Expenditure Budget also suggests that we cannot expect any significant improvement, since fewer public resources are to be earmarked for infrastructure.

The mortgage lending market shows contraction in both the number of loans granted and their amount. This is the result of reduced origination on the part of public institutions, although bank lending grew in terms of amount. Even with the changes in monetary policy, the commercial banking market continues on a positive trend, even above that of the economy as a whole. In part this is due to the banks' not having passed on to borrowers all the increase in the reference rate. This reflects competition among banks to win market share and the fact that with this product the main incidence comes from long-term rates.

Meanwhile, the public institutions placed less credit than last year, largely due to a base effect. In 2015 demand was boosted by the increase in maximum amounts granted by Infonavit (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, the Mexican federal institute for workers' housing) as well as by the change in denomination of loans (from multiples of the minimum wage to flat peso amounts). We estimate that this year 50,000 fewer loans will be granted than last year. This, together with the confirmed cut in housing subsidies, leads us to expect lower demand.

In discussing the real estate sector we have focused on details mainly from the perspective of residential building construction. However, a comprehensive review of this sector must also include building construction of commercial property. These kinds of works have performed outstandingly in previous years and present themselves as an alternative to home construction. This option is valid both for economic agents dedicated to building construction as such and for financial intermediaries such as the commercial banks. The increase in commercial building construction has gained ground on housing thanks to sustained demand for industrial facilities, shopping centres and office buildings. We expect a slowdown in building construction of these types due to the lower level of economic activity and the increased price of certain inputs.

According to a report by the Federal Mortgage Company, the housing price index rose by 8% in the first two quarters of the year. However it is worth pointing out that the residential market shows considerable disparities from one part of the country to another. Prices in states such as Nuevo León, Jalisco and Mexico City are considerably higher than in the rest of the country. The greater part of the appreciation is due to the cost of their inputs growing faster than the National Producer Price Index. However there are also cases in which the increase in market value is due to a greater concentration of subsidies.

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