

Economic Watch

Mexico

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Economic Analysis

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National Housing Policy: changes on the horizon

- **The new policy will introduce major changes to housing support programs**
- **Institutional coordination, sustainable urban development, new subsidy rules and focus on the lag, strategies**
- **The proposals are positive but details are incomplete to fully assess the scope of the programs and their possible impact**

President Peña Nieto announced yesterday the general outline of what will be the National Housing Policy (PNV) during his government to be centered on four strategies: strengthening institutional coordination, using home finance to guide urban develop, reducing the housing gap and strengthening housing improvement activities in the urban and rural environment.

What the statement means

The president's speech only included the general outline of the PNV but it is worth looking into it in more detail since some of the support program's aspects will mean major changes from previous years.

Institutional coordination as a central feature

With regard to institutional coordination, the Agricultural, Land and Urban Development Department (Sedatu) is to be strengthened which, with the reforms to the Organic Law on Federal Public Administration passed at the start of the year, merges the Urban Development and Town and Country Planning Under-secretariat (which was attached to the Social Development Department) into the Agricultural Reform Department. The Sedatu will coordinate housing policy and chair the Inter-departmental Commission on the issue which was before under the responsibility of the Treasury and Public Credit Department (SHCP).

This is very important news and will provide coherence and consistency to housing policy. Institutional coordination and uniting programs are essential to guarantee housing support programs' consistency and effectiveness. Thanks to these changes, the Sedatu will be responsible for the National Housing Committee (Conavi), the Committee for Land Tenancy Regularization (Corett) and the National Fund for Low Income Housing (Fonhapo). In turn, and perhaps even more importantly, the new department will be coordinated with Infonavi; this institution is the most involved in national housing policy and with the local government of the 60 biggest cities in the country. In this regard, a similar coordination agreement with FOVISSSTE would also be desirable.

Coordination with local governments is very necessary. On the one hand, most national housing construction is highly concentrated: 76% of housing registered with the Single Housing Register (RUV) between 2011 and 2012 was located in just 86 towns. On the other, the responsibility for deciding on urban development rests with municipal authorities. The agreements with these governments will lead to, if not a strengthening of powers for the federation on this issue then attaining a binding opinion.

The strategy is promising and in line with the thinking at BBVA Research in the sense of aligning ministerial and official bodies' policies and programs at the three levels of government with the same objectives.

Finance will help align incentives

The new government explicitly recognizes that it needs to review how cities have been expanding. President Peña stated: "We are all aware that cities have grown chaotically, without integral planning. This has led to uncontrolled expansion of urban sprawl, lowering competitiveness and sustainability." He went on to say that "Government loans and subsidies will be aimed at strengthening ordered urban growth".

As part of this strategy, there is talk of strengthening a move back into city centers as well as constructing vertical housing and certified developments. This means that from 2014 the operational rules for subsidy programs will focus more on location - something that had been sought since 2011 without much success. At BBVA Research we see this as extremely positive.

This is perhaps the news that will have the greatest short-term impact. For large housing developers with major land banks in peripheral areas in cities, this represents a major challenge. Looking at the location of 260,000 homes registered at the RUV in 2012, only 3.5% were located in urban areas. Although the adjustment will come over 2013 and 2014 undoubtedly with major lobbying to define what is to be understood as an urban area (as happened with the current subsidy program operating rules), some will have to start thinking about using this land stock for other purposes.

Cutting down the lag to be a priority

The third strategy will be based on reducing the housing gap. According to difference estimates, around 9 million households faced some kind of gap in 2010. It should be clarified that not all households with a housing gap need a new home since many (around 7 million according to our estimates) could require improvements and extensions.

In any event, focus will also need to be given to establishing specific programs to reduce the lag. The figure of a million actions for this issue is estimated, 500,000 of which would be new builds and the rest comprise support for land and extension and improvement work. Some clarifications will need to be made here. Firstly, a precise distinction should be made between what is required in the urban and in the rural environment.

The president explicitly stated that "the role of private banking will be strengthened in granting home loans". We take this as a very positive point. In order for this to happen, how government bodies operating in the home finance market work will need to be reviewed so that there are no distortions leading to difficult or lack of access for private players on the market.

In turn, quantifying the housing lag at regional level is a challenge in itself: information on housing material, an essential element for quantifying the gap, is most detailed in the National Household Income and Expenditure Survey (ENIGH) but this is not representative at state level. Moreover, an updated analysis is required for the durability of construction materials which can have major differences at regional level. Lastly, households with a gap will need to be taken into account as they will likely require a full subsidy and it is not easy to fund such a large number of homes.

Explicit reference is made to supporting the armed forces and police in purchasing a new home. We believe it should be any home, not necessarily a new one or, in any event, a decision made by the applicants themselves. The housing subsidy program in recent years aimed to aimed special treatment for housing for the armed forces although this did not necessarily provide them with any benefit: the support in 2011 comprised eliminating the need to register the property with the RUV and in 2012 they were awarded the maximum possible subsidy, without taking into account the location or features of the property set out in the transaction rules.

Improvement programs set to see greater momentum

Alongside the strategy to boost the National Anti-hunger Campaign, the aim will be to improve housing conditions in the 400 municipalities with the highest level of social deprivation in the country. The actions include recovering public and communal spaces, improving housing units and even crime prevention programs.

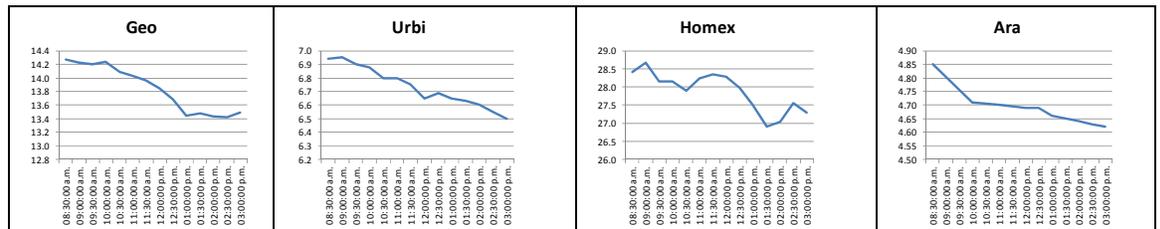
Lastly, there is a proposal to improve living conditions ensuring every home financed with public resources has at least two bedrooms. In turn, there is an emphasis on the need to align programs at municipal level in the area of urban development with environmental programs. Both measures appear positive although difficult to fulfill without a specific plan. Aligning urban and environmental development could require changes to national legislation. In turn, there should be awareness that the space requirements in housing depend on the structure and size of households and these have seen rapid changes in recent years.

It is also stated that there will be a transition period of up to two years so that important players are able to adjust to the new policies although no more details are given on this

Initial reactions

The program's announcement led to negative expectations for housing construction companies listed on the stock market. It is known that their land stock is located on the edge of cities and that by removing the emphasis on purchasing a new home as well as boosting construction within urban areas more, these companies could face some problems in selling their homes.

Share prices fell, mainly for those companies with a greater exposure to subsidies, such as Geo and Urbi, which fell back between 4 and 5%. The decline was less for Homex and Ara (2.1% and 1.3% respectively) and Sare actually saw a slight rise (1.1%)



What remains to be clarified

The programs' details remain to be set out. It will likely take a few months for a precise breakdown of the most pressing housing needs and, especially, of how the programs should be integrated and mechanism assured so that there can be appropriate coordination between the federal, state and municipal governments. We believe the two-year transition period should be carried out on market terms and no grants be awarded that could lead to distortions or generate moral hazards looking forward.

Of course, we still need to see how the programs will be configured over the next two years as well as the support, if there is any, for large housing developers regarding their land banks. There is not doubt that definitions will be crucial but it should also be stated that the warnings over the need to change the house building model, from the outskirts to urban centers, began to be heard a few years ago. Certainty is undoubtedly required for housing regarding policies and guaranteeing long-term continuity. President Peña Nieto's final message seemed to state this: "I assure you that there will be absolute certainty for all players in this important sector with clear rules, congruous policies and focused actions."

Assessment: Signs of change but details are needed to assess the impact

The announcement of the program undoubtedly represents a change in housing policy and institutional coordination will be an essential element. It is also clear there is an interest in putting the brakes on the growth of cities meaning the criteria for awarding subsidies will place special attention on location and support will be spread to lend greater weight to remodeling. In general terms, they seem to be steps in the right direction since both the lack of coordination and planning and control in urban spread have been repeatedly identified as factors leading to major distortion in the housing market in general.

In turn, the announced policy seems to suggest major changes in the business model of large house builders whose land stock is mainly located on the outskirts of cities. Nonetheless, details will need to be quickly worked on to help clear up uncertainty and speculation.

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