

# Mexico Real Estate Flash

## Let's not lose sight of the forest...

The first quarter of the year was very complicated for the housing market. The subsidies program began later than planned, which made the work of public housing institutions more difficult. In addition, the financial difficulties being experienced by the companies with the largest output resulted in a negative impact on the pace of residential construction. The government has sent out clear indications of where it will direct its medium-term housing policy but short-term actions will be important in order to soften the impact of transition and its costs.

- **A complicated first quarter.**

Mortgage activity decreased by 15.9% in the number of loans and by 12.8% in the amount lent. The activity of housing institutions slowed as a result of the late start of the subsidies program, which began at the end of the quarter. On the banking side, where activity also dropped, the explanation may lie in calendar effects (fewer workdays in 2012 compared to 2013 due to the Easter holiday) as well as to the change of government: the drop here was far more modest, 1.1% in real terms with respect to the loan total amount (4.1% for the number of credits) and an increase of 2% in real terms if only credits awarded with bank capital are taken into consideration.

Housing construction companies also had a difficult start of the year. According to the General Housing Registry (RUV), the number of homes registered contracted by 20.5% in annual terms during the first quarter, from 401,000 homes in 2012 to 319,000 homes in 2013. The result is mainly explained by the unraveling of the financial situation of companies with the greatest volume of housing construction, some of which are listed on the stock market.

From 2012, with changes in the rules of the subsidies program (to which public companies dedicate more than 80% of their output), the larger building companies experienced difficulties finding a market for their homes and changing the location of planned projects.

- **The government has given clear signals that it will support the sector.**

The new government has given signals that it will support the sector, for instance when it announced that a high percentage (between 80% and 90%) of the territory reserved for housing construction companies could be included in federal government assistance programs. Other measures announced include the guarantees program for housing construction from the Sociedad Hipotecaria Federal (SHF). Furthermore, efforts will be made toward increased access to mortgage financing for workers whose housing needs are not fully met even though they are in the formal sector of the economy. These groups may receive assistance through Infonavit, Fovissste and commercial banking.

Overall, the market has revealed caution over the capacity of housing construction companies listed on the stock exchange to adapt to the new model. Public announcements by the companies themselves on issued bonds interest payment defaults and debt restructuring with creditors only encourage this cautionary approach.

- **Some short-term measures could be of great help**

The problem with public housing construction companies could begin to unravel if the value of its territorial reserves becomes clearer and, in general, when a clear picture is available of how its housing model fits in to the new policy. The government can do a lot to speed up the process toward the clarification of these areas. It would also be helpful to make minor adjustments to the recently announced assistance programs, particularly that concerning credit to construction, in order to ensure that public companies benefit from them. Somewhat increased flexibility regarding the type of projects that can receive help will be key to achieve the above.

The fundamental message is that, observed in context, the housing market continues to display a high potential, with demands rising due to demographic factors, the economic cycle, and markets yet to be developed. Further positive factors include healthy financial institutions, a government that promotes the sector, and a supply that is progressively adjusting to better meet the specific demand. In other words, let's not lose sight of the forest when looking at a single tree.

Table 1:  
Mortgage lending: Number and amount of loans, March aggregate

Body	Number of loans (thousands)			Amount of lending (Bn p)		
	2012	2013	% change y/y	2012	2013	Real % change y/y
Public institutions	116.6	96.2	-17.5	32.9	27.5	-19.2
Infonavit	102.1	83.5	-18.1	25.9	21.3	-20.3
Fovissste	14.5	12.7	-12.6	7.1	6.2	-15.5
Private intermediaries	19.6	18.7	-4.5	18.2	18.6	-1.3
Banks	19.3	18.5	-4.1	18.1	18.5	-1.1
Sofoles	0.3	0.2	-29.4	0.1	0.1	-30.9
<b>Subtotal</b>	<b>136.2</b>	<b>115.0</b>	<b>-15.6</b>	<b>51.1</b>	<b>46.1</b>	<b>-12.8</b>
Co-financing* (-)	6.2	5.6	-9.3	---	---	---
<b>Total</b>	<b>130.0</b>	<b>109.3</b>	<b>-15.9</b>	<b>51.1</b>	<b>46.1</b>	<b>-12.8</b>
<b>Information figures</b>						
Total co-financing (-)	13.0	11.5	-11.5	-	-	-
Other co-financing (-)	6.2	5.6	-9.3	-	-	-
Infonavit total (-)	6.8	5.9	-13.5	-	-	-

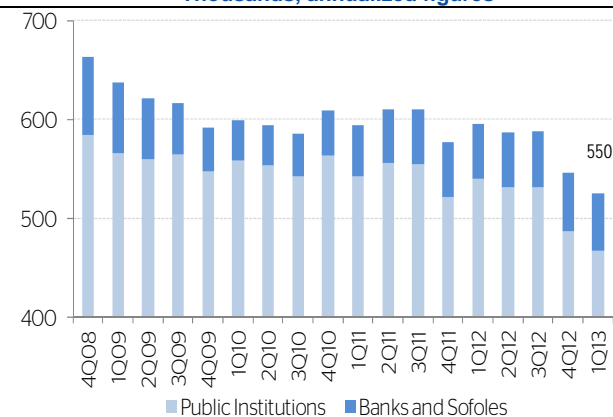
\*Total excluding Infonavit

Source: BBVA Research with Infonavit, Fovissste, ABM and CNBV data

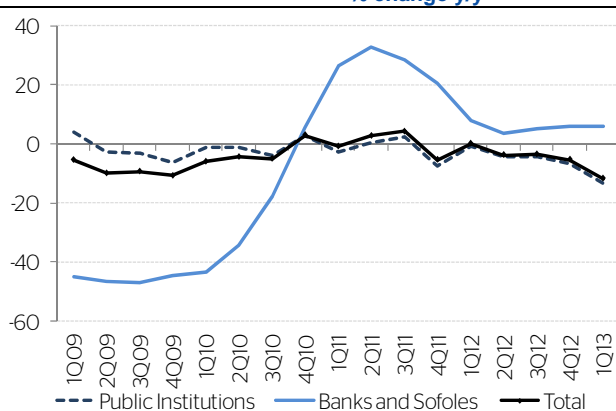
Chart 1 and 2

**Number of loans by institution**

Thousands, annualized figures



% change y/y

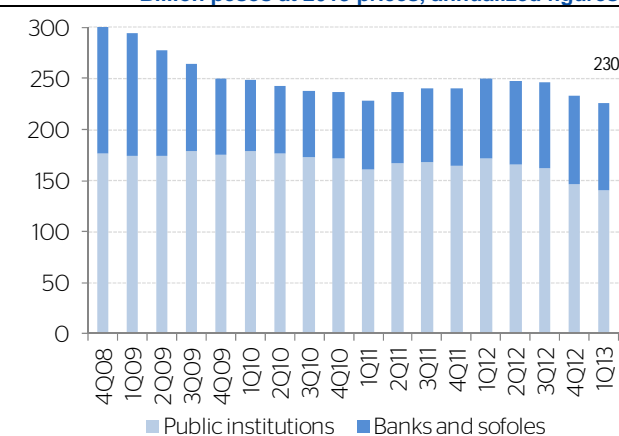


Source: BBVA Research with ABM, Infonavit and Fovissste data

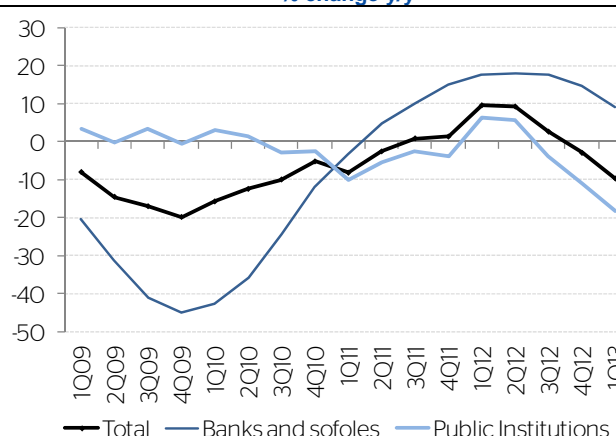
Chart 3 and 4

**Amount of lending by institution**

Billion pesos at 2013 prices, annualized figures



% change y/y

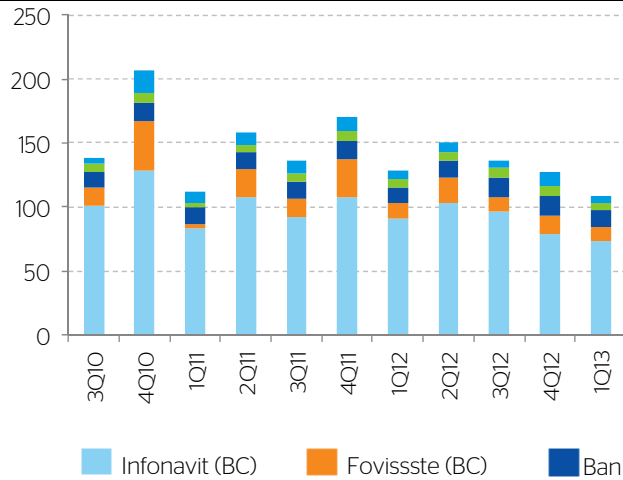


Source: BBVA Research with ABM, Infonavit and Fovissste data

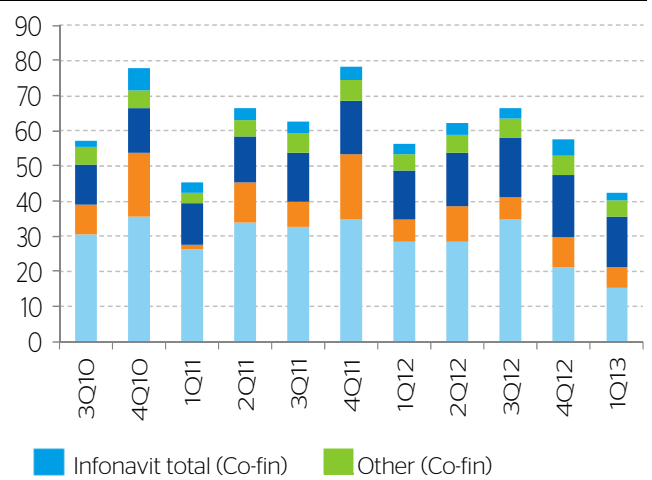
Chart 5 and 6

**Mortgage loans by institution**

Thousands of loans



Billion pesos, at 2013 prices

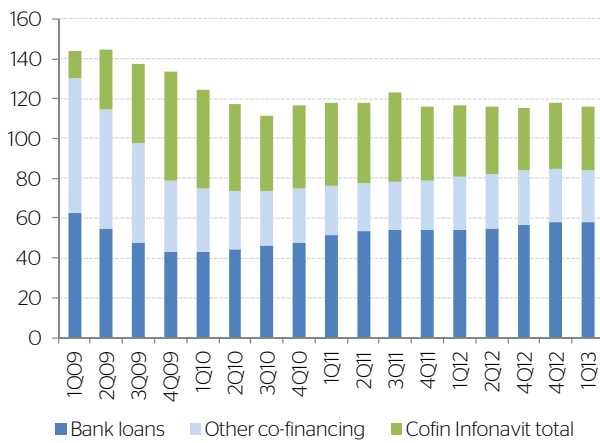


(BC) Bank capital. (Co-fin) Co-financing  
Source: BBVA Research with Infonavit, Fovissste and ABM data

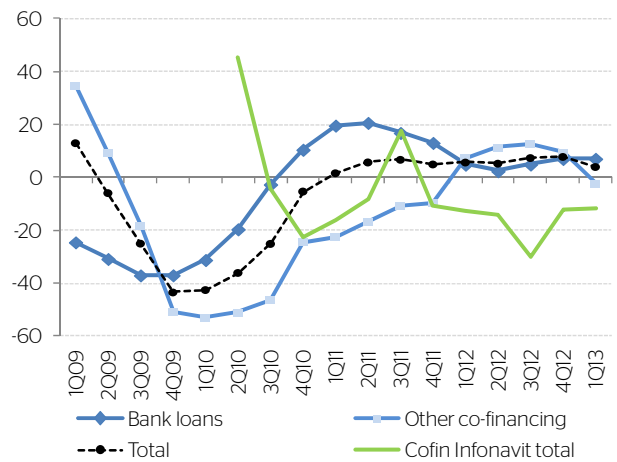
Chart 7 and 8

**Number of loans granted by commercial banks**

Thousands, annualized figures



% change y/y

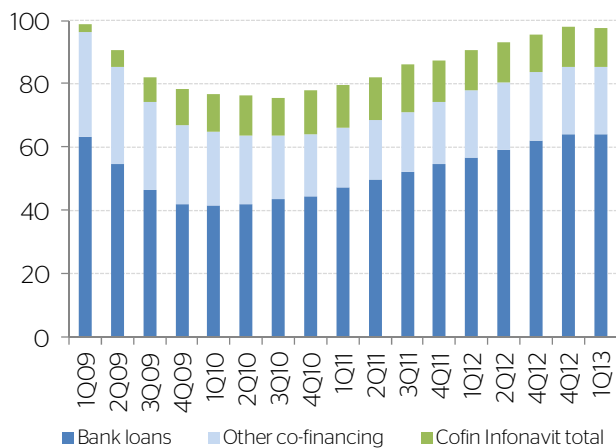


Note: From this issue we include the Infonavit Total product in banking products, therefore the figures do not correspond to previous ones.  
Source: BBVA Research with ABM, Infonavit and Fovissste data

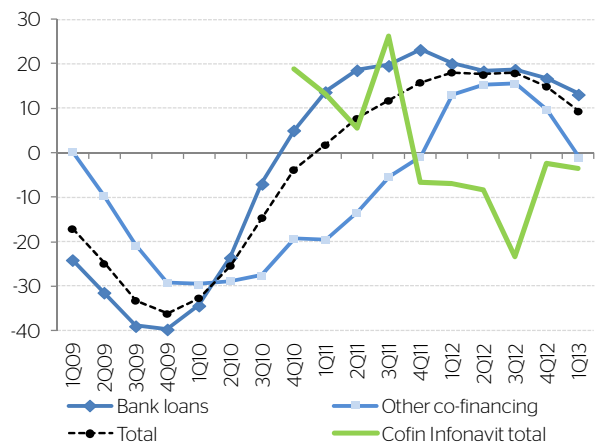
Chart 9 and 10

**Amount of financing granted by commercial banks**

Billion pesos, 2013 prices, annualized figure



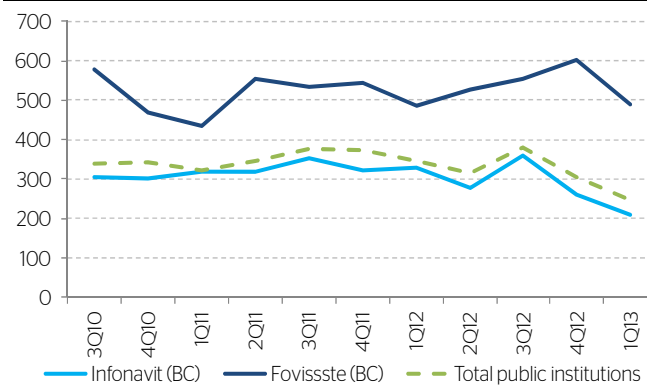
% change y/y



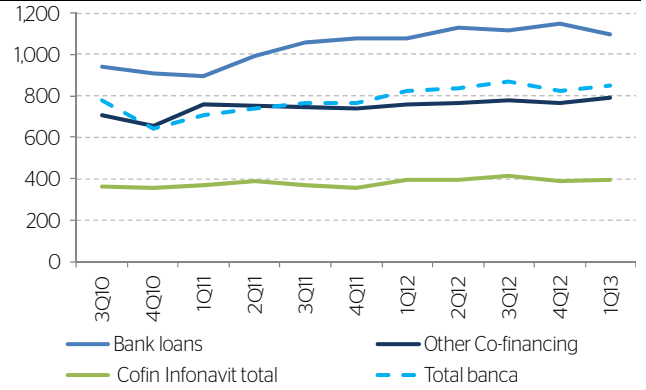
Source: BBVA Research with ABM, Infonavit and Fovissste data

Chart 11 and 12

**Average mortgage amount. Thousand pesos, 2013 prices**  
Public institutions



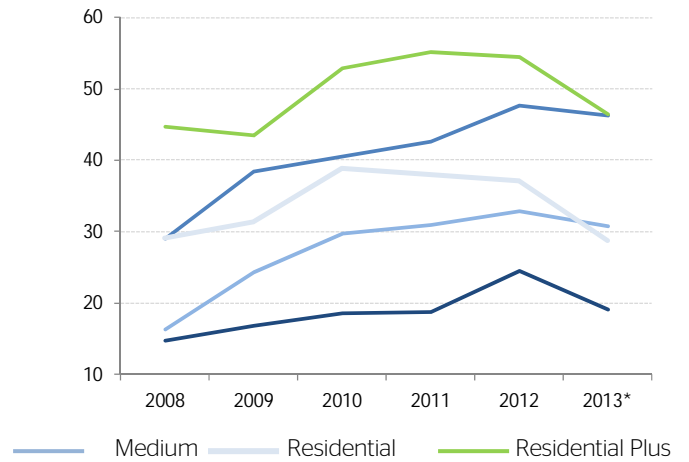
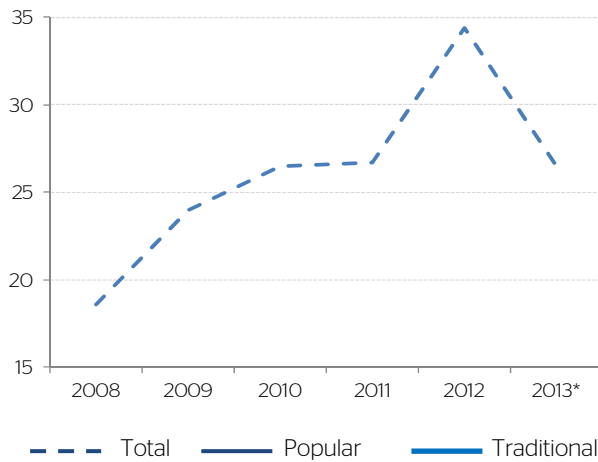
**Banks**



(BC) Bank capital. (Co-fin) Co-financing  
Source: BBVA Research with Infonavit, Fovissste and ABM data

Chart 13 and 14

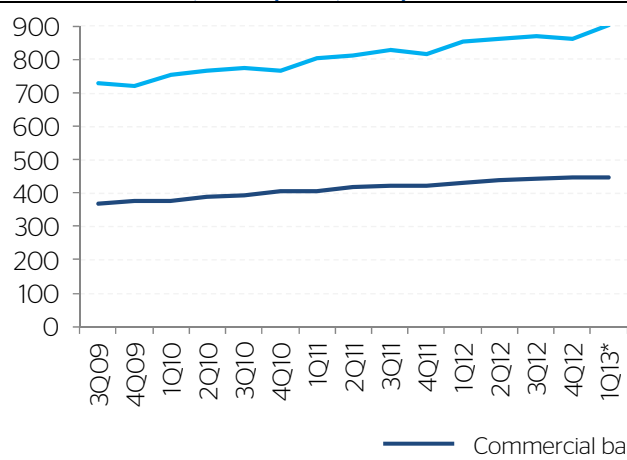
**Existing homes: Market share % in mortgage loans from Infonavit**



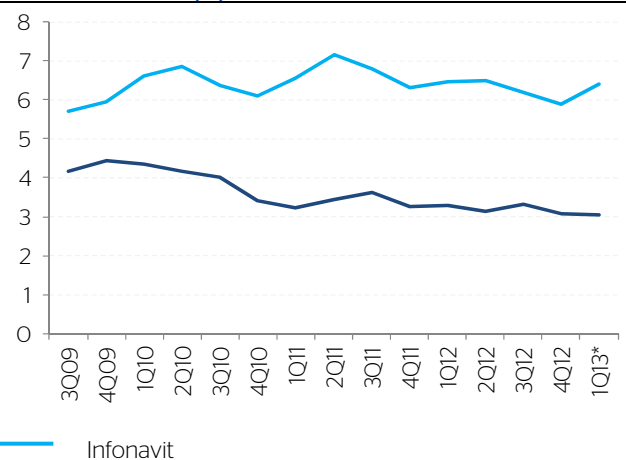
\*As of February  
Note: Price ranges expressed in multiples of min. monthly salary (VSMM). Inexpensive to 118 VSMM (232 thousand pesos); Popular to 200 VSMM (394 thousand pesos); Traditional to 350 VSMM (689 thousand pesos); Medium-income to 750 VSMM (1,477 mn); Residential to 1,500 VSMM (2,954 mn); Residential Plus over 1,500 VSMM (Over 2,954 mn). Source: BBVA Research with Infonavit data

Chart 15 and 16

**Mortgage lending, current portfolio balance**  
Current, billion pesos, 2013 prices



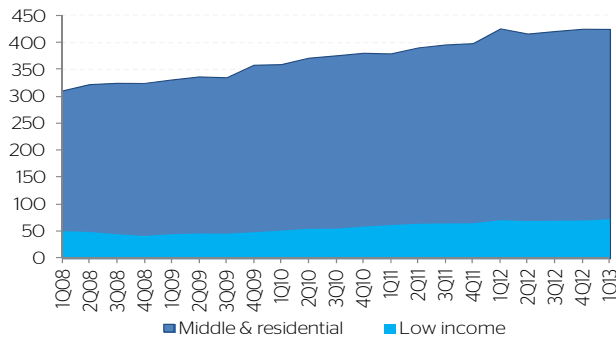
**NPL ratio (%)**



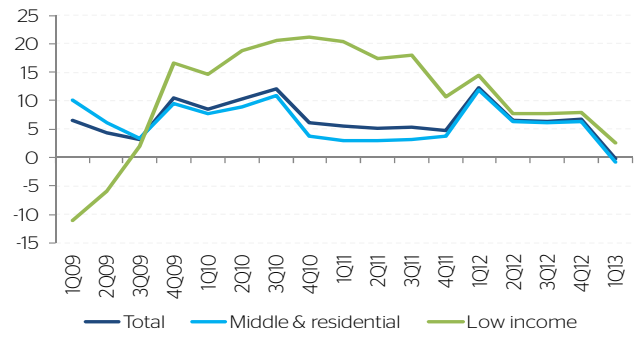
\*As of February  
Sources: BBVA Research with Banxico data

Chart 17 and 18

**Balance of the commercial bank portfolio by segment**  
Current, billion pesos, 2013 prices



**NPL ratio (%)**

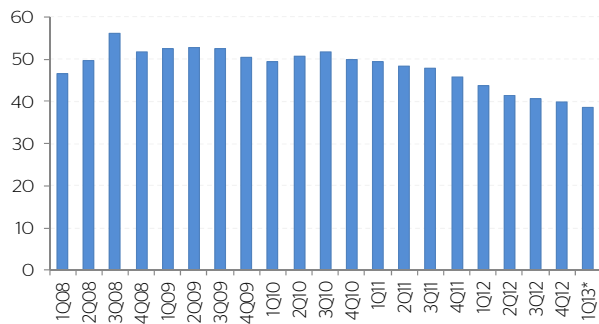


\*As of February

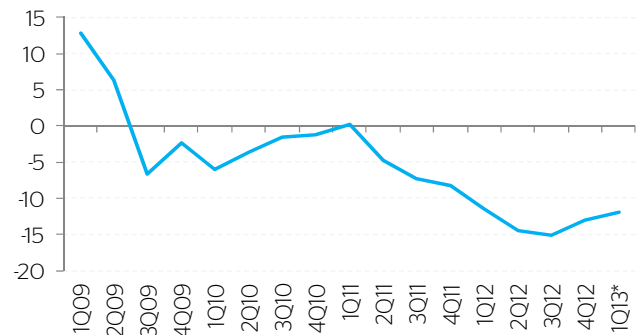
\*Low income\* includes inexpensive, popular, and traditional housing  
Source: BBVA Research with Federal Mortgage Society (CNBV) data

Chart 19 and 20

**Bridging credit to developers, total current loans in system**  
Billion pesos, 2013 prices



**real y/y %change**

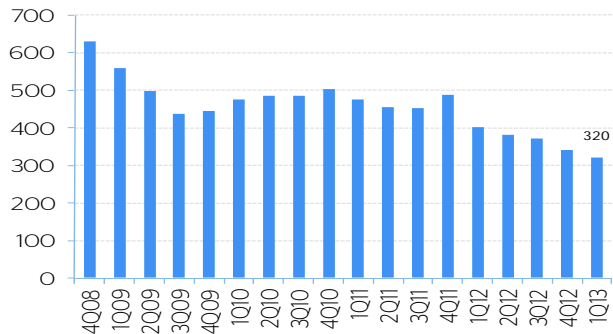


\*As of February

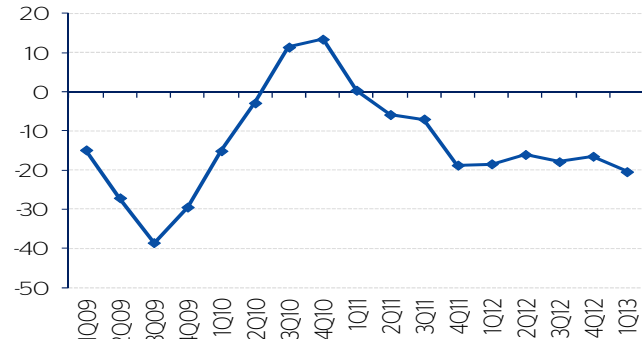
Note: The classification criteria for Bank of Mexico bridging credit have been harmonized with those of the National Banking and Securities Commission (CNBV), therefore these figures do not correspond to those published in previous Flash reports.  
Sources: BBVA Research with Banxico and CNBV data

Chart 21 and 22

**Housing starts: RUV**  
Thousands of homes, annualized figures



**% change y/y**



Note: period from the registration of the home to its sale on the market.  
Source: BBVA Research, with RUV data

Eduardo Torres  
e.torres@bbva.com

Fernando Balbuena  
fernando.balbuena@bbva.com



Av. Universidad 1200, Col. Xoco, Mexico 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbva.com

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