

# Real Estate Flash Mexico

## Strong growth in housing demand; why does supply not follow suit?

In the first four months of the year, the volume of mortgage lending granted by the financial system grew by 34% in real terms. Although this is partly due to a statistical effect, the figures reveal that demand for housing continues to expand strongly. This is consistent with the growth in employment, recovery of consumer confidence and, in general, an environment of expanding economic activity. The question arises on the supply side, which far from picking up has adjusted down. Seen in perspective, the imbalance appears to be a response to the natural process of market adjustment. Although an increase in housing construction could be expected (and May figures are optimistic in this respect), the current levels of construction do not appear far from the medium-term equilibrium.

- **Housing demand starts strongly in 2012**

In the first four months of the year, the total number of mortgage loans grew by 7.2% on the same period last year. At the same time, the volume of lending was up 33.6% in real terms. For commercial banks, the number of loans was up around 16% and the volume of lending by 17% in real terms.

There is a clear link between housing demand and the economic cycle. In particular, consumer confidence and job creation are key determinants in the decision to buy a home. In 2012, confidence was at an average of 91.6 points, 3.1 up on the same period last year, and already very close to the 2008 levels of 97 points. On the employment front, annual growth in jobs for the January-May period was 4.5%. It is worth noting that from mid-2010 to date, employment has grown at practically the same rate as the economy overall (on average, at 4.6% compared with 4.5% for GDP).

- **Public institution pick up the pace**

In April, public institutions recorded a 9% increase in the number of loans. However, in terms of the volume of lending granted, the rise is fairly significant in both institutions, with a combined increase of 45% in real terms. With these figures, compliance with the established targets for the year is practically assured, as both have already met nearly a third.

Despite this being an election year, the targets of the public institutions were not particularly ambitious. The 490,000 loans set by Infonavit for the completed housing program and the 70,000 by Fovissste were very similar to the average over the last four years.

- **What's up with supply?**

Unlike what is happening with demand, housing supply as measured by housing starts reported to the Single Housing Register (RUV) appear to have slowed. The May figure of 51,000 homes (annual rise of 70%) contrasts strongly with the annual fall of around 10% in January-April and could be anticipating a change in the trend, although these figures will still have to be consolidated.

What is true is that the imbalance between the rate of expansion in supply and demand has given rise to many questions about the causes and the pace that should be maintained to guarantee market equilibrium. However, the current volume of activity may in fact be close to the levels required for this equilibrium. Considering that around 600,000 individual loans are granted each year and existing housing already accounts for around 30% of the loans, housing construction should be within a range of 420,000 to 450,000 per year. This figure is not very far from current levels, which in annualized terms are close to 420,000.

Finally, it is important to consider that the need for new housing has been moderating, partly due to the increased alternatives available in existing housing, to which should be added housing in the process of foreclosure that will eventually enter the market.

Table 1

**Mortgage lending: Number and amount of loans, annual aggregate**

	Number of loans (thousands)			Amount of lending (billion pesos)		
	Apr-11	Apr 12	Annual % change	Apr-11	Apr 12	Annual real % change
Public	139.6	151.8	8.8	37.4	56.1	45.2
Infonavit	131.6	132.1	0.4	33.9	46.4	32.6
Fovissste	7.9	19.7	148.8	3.5	9.7	167.3
Private	23.3	25.7	10.4	22.4	26.5	14.3
Banks	22.2	25.7	15.6	21.9	26.5	17.0
Sofoles	1.0	0.0	--	0.5	0.0	--
Subtotal	162.8	177.5	9.0	59.8	82.6	33.6
Cofin. (-)	4.7	8.0	69.6	---	---	---
<b>Total</b>	<b>158.1</b>	<b>169.5</b>	<b>7.2</b>	<b>59.8</b>	<b>82.6</b>	<b>33.6</b>

Source: BBVA Research with ABM and CNBV data

Chart 1

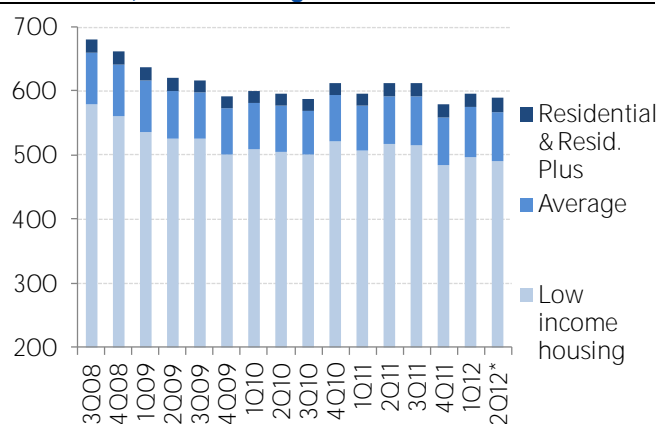
**Number of loans by segment**  
**Thousands, annualized figures**Source: BBVA Research with Infonavit, Fovissste, and AMB data  
\* to April

Chart 2

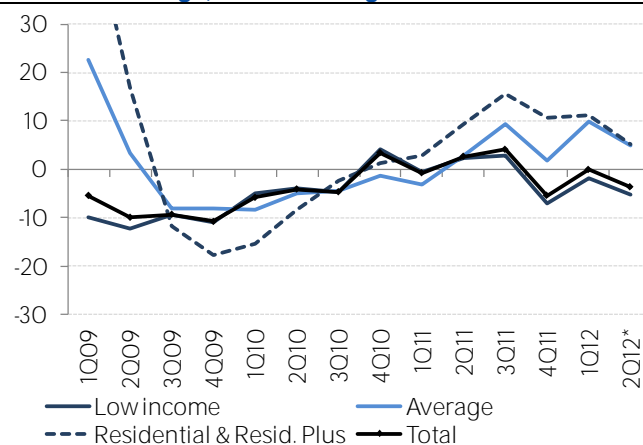
**Number of loans by segment**  
**Annual % change, annualized figures**Source: BBVA Research with Infonavit, Fovissste, and AMB data  
\* to April

Chart 3

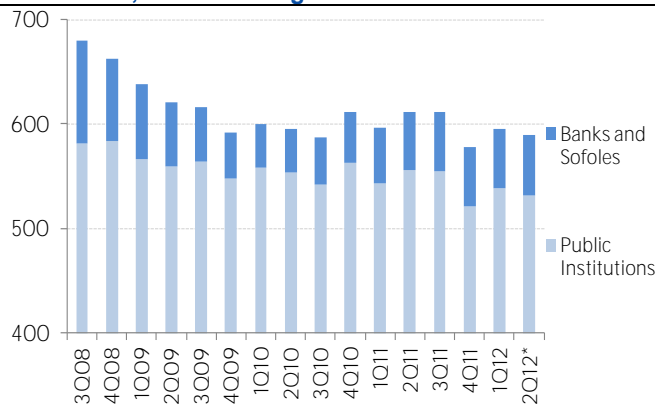
**Number of loans by institution**  
**Thousands, annualized figures**Note: The private sector only includes own funds  
Source: BBVA Research with ABM and AHM data  
\* to April

Chart 4

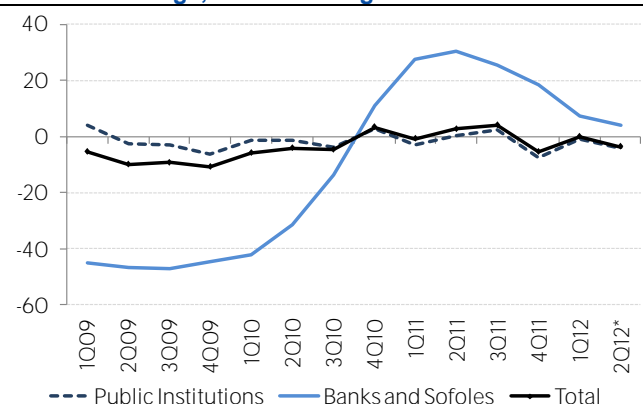
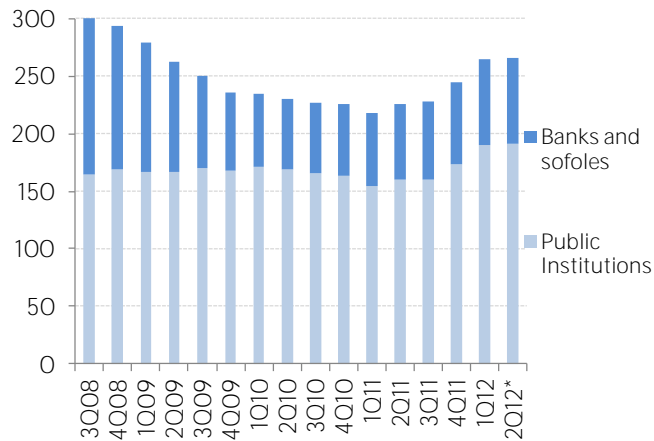
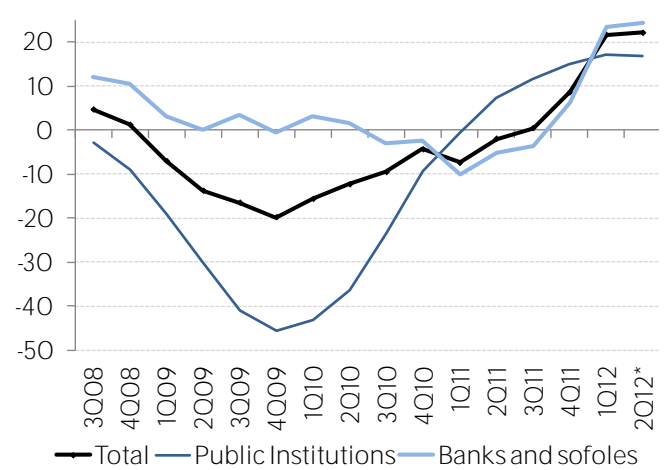
**Number of loans by institution**  
**Annual % change, annualized figures**Source: BBVA Research with ABM and AHM data  
\* to April

Chart 5  
Amount of loans by institution  
Billion pesos, annualized figures



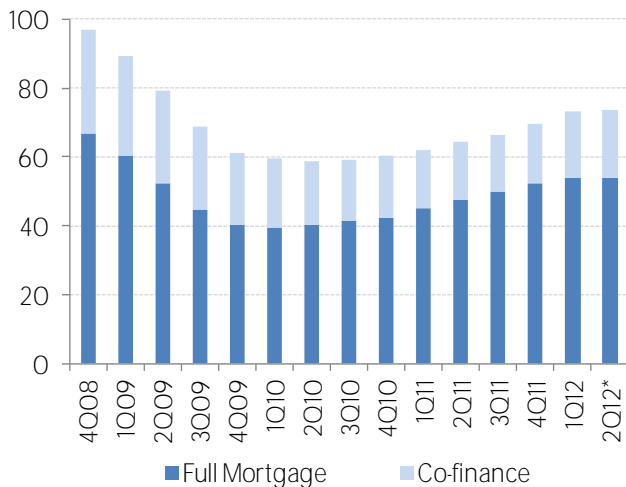
Source: BBVA Research with ABM and AHM data  
\* to April

Chart 6  
Amount of loans by institution  
Annual % change, annualized figures



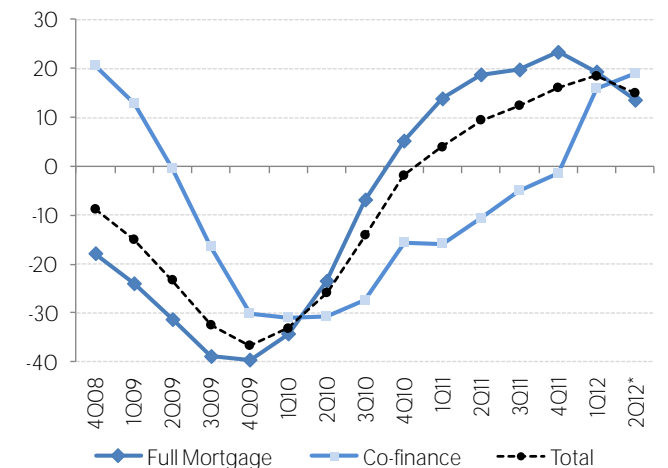
Source: BBVA Research with ABM and AHM data  
\* to April

Chart 7  
Amount of finance granted by commercial banks. Billion pesos, 2012 prices, annualized figures



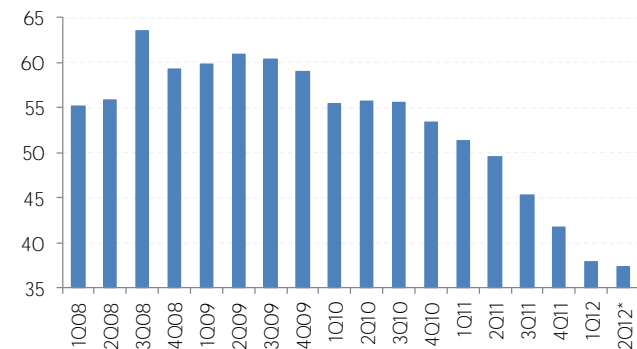
Source: BBVA Research with Infonavit, Fovissste, and AMB data  
\* to April

Chart 8  
Amount of finance granted by commercial banks. Billion pesos, annualized figures, annual % change



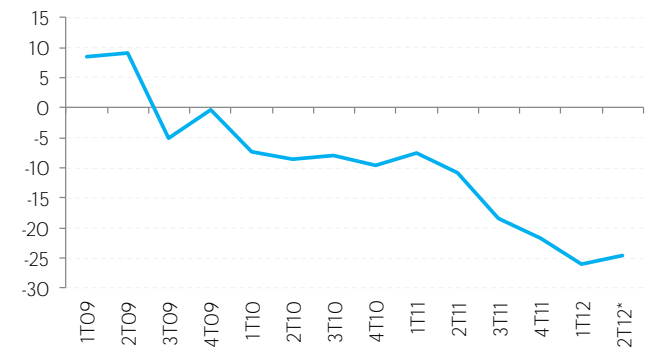
Source: BBVA Research with Infonavit, Fovissste, and AMB data  
\* to April

Chart 9  
Construction loans, current portfolio balance  
Billion pesos, 2012 prices



Source: BBVA Research with Bank of Mexico data  
\* to April

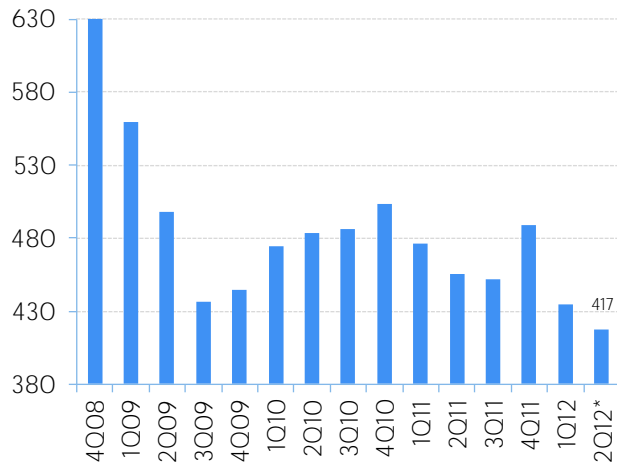
Chart 10  
Construction loans, current portfolio balance  
Real annual % change



Source: BBVA Research with Bank of Mexico data  
\* to April

Chart 11

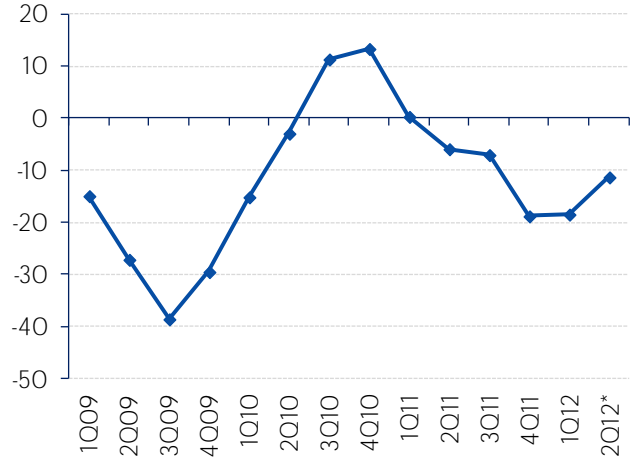
### Housing starts: RUV register Thousands of homes, annualized figures



Source: BBVA Research, with RUV data  
\* to April

Chart 12

### Housing starts: RUV register Annual % change



Source: BBVA Research, with RUV data  
\* to April

Table 2

### Number of mortgage loans by state

	Infonavit			Fovissste			Bancos			Sofoles			Total		
	apr-11	apr-12	annual % change	apr-11	apr-12	annual % change	apr-11	apr-12	annual % change	apr-11	apr-12	annual % change	apr-11	apr-12	annual % change
Ags	2,444	2,988	22.3	177	412	132.9	454	382	-15.9	22	ND	---	3,097	3,782	22.1
BC	7,543	6,787	-10.0	108	488	351.4	682	918	34.6	47	ND	---	8,380	8,193	-2.2
BCS	1,167	922	-21.0	182	357	96.0	244	188	-22.8	0	ND	---	1,593	1,467	-7.9
Cam	748	790	5.6	20	59	197.3	133	169	27.2	4	ND	---	905	1,019	12.6
Coah	5,821	6,873	18.1	128	412	222.0	654	715	9.3	1	ND	---	6,604	8,000	21.1
Col	1,149	1,106	-3.7	37	159	328.5	178	208	16.7	3	ND	---	1,367	1,473	7.7
Chis	1,486	1,052	-29.2	216	242	11.9	263	246	-6.3	0	ND	---	1,965	1,540	-21.6
Chih	5,051	5,349	5.9	121	468	286.5	840	952	13.3	5	ND	---	6,017	6,769	12.5
DF	4,589	8,260	80.0	278	650	133.8	3,095	4,382	41.6	32	ND	---	7,994	13,292	66.3
Dgo	1,710	1,940	13.5	173	345	99.3	209	271	29.5	0	ND	---	2,092	2,555	22.2
Gto	6,005	6,121	1.9	245	341	39.1	1,099	1,300	18.3	33	ND	---	7,382	7,762	5.1
Gro	1,042	852	-18.3	202	622	208.1	226	353	56.1	0	ND	---	1,470	1,827	24.3
Hgo	3,163	2,529	-20.0	358	1,118	212.2	259	367	41.8	7	ND	---	3,787	4,014	6.0
Jal	12,487	12,046	-3.5	301	658	118.6	2,313	2,382	3.0	71	ND	---	15,172	15,086	-0.6
Méx	11,990	9,974	-16.8	2,040	3,892	90.8	1,273	1,870	46.9	193	ND	---	15,496	15,736	1.6
Mich	3,024	2,632	-13.0	229	400	74.8	734	734	0.1	6	ND	---	3,993	3,767	-5.7
Mor	1,955	1,502	-23.2	601	1,585	163.8	314	300	-4.6	1	ND	---	2,871	3,387	18.0
Nay	1,286	860	-33.1	85	226	165.8	152	159	4.9	12	ND	---	1,535	1,245	-18.9
NL	14,823	16,063	8.4	247	817	230.6	2,455	1,967	-19.9	134	ND	---	17,659	18,846	6.7
Oax	420	488	16.2	64	222	246.8	159	203	27.6	1	ND	---	644	913	41.8
Pue	4,022	4,158	3.4	228	622	172.9	765	831	8.6	15	ND	---	5,030	5,611	11.6
Qro	3,539	3,624	2.4	191	606	217.5	736	933	26.8	27	ND	---	4,493	5,162	14.9
QR	4,747	4,717	-0.6	213	1,035	385.7	598	691	15.5	80	ND	---	5,638	6,442	14.3
SLP	2,937	2,976	1.3	104	305	193.5	609	802	31.7	6	ND	---	3,656	4,083	11.7
Sin	3,122	3,620	16.0	197	460	133.4	697	850	22.0	3	ND	---	4,019	4,931	22.7
Son	5,915	5,672	-4.1	164	551	235.9	480	614	27.8	27	ND	---	6,586	6,836	3.8
Tab	1,504	1,418	-5.7	23	59	158.5	320	343	7.2	3	ND	---	1,850	1,820	-1.6
Tam	6,729	6,050	-10.1	157	587	273.6	646	604	-6.5	15	ND	---	7,547	7,240	-4.1
Tlax	594	933	57.0	25	91	264.7	34	48	42.1	1	ND	---	654	1,072	63.9
Ver	5,789	5,337	-7.8	637	1,237	94.1	1,035	1,174	13.4	47	ND	---	7,508	7,748	3.2
Yuc	3,770	3,371	-10.6	143	527	268.6	424	594	40.2	2	ND	---	4,339	4,492	3.5
Zac	1,060	1,105	4.3	34	170	401.3	130	145	11.5	0	ND	---	1,224	1,421	16.1
ND	0	0	---	0	---	---	0	0	---	257	ND	---	257	0	---
<b>Total</b>	<b>131,631</b>	<b>132,115</b>	<b>0.4</b>	<b>7,928</b>	<b>19,723</b>	<b>148.8</b>	<b>22,209</b>	<b>25,695</b>	<b>15.6</b>	<b>1,055</b>	<b>ND</b>	<b>---</b>	<b>162,823</b>	<b>177,533</b>	<b>9.0</b>

Source: BBVA Research with Infonavit, Fovissste and ABM data

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